弘海

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Grand Ocean Advanced Resources Company Limited
弘海高新資源有限公司

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

2018 ANNUAL REPORT

CONTENTS

CORPORATE PROFILE

Board of Directors

Executive Directors

Mr. NG Ying Kit
Ms. HUO Lijie
Mr. REN Hang *(appointed on 23 July 2018)*
Mr. XU Bin *(Chairman) (passed away on 12 June 2018)*
Mr. Zhang Fusheng *(Chief executive officer)*
(resigned on 23 July 2018)

Independent Non-Executive Directors

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

Compliance Officer

Mr. NG Ying Kit

Company Secretary

Ms. WAN Shui Wah

Authorised Representatives

Mr. NG Ying Kit
Ms. WAN Shui Wah *(appointed on 23 July 2018)*
Mr. Zhang Fusheng *(resigned on 23 July 2018)*

Audit Committee

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

Remuneration Committee

Mr. HUANG Shao Ru *(Chairman)*
Mr. CHANG Xuejun
Mr. NG Ying Kit *(appointed on 23 July 2018)*
Mr. XU Bin *(passed away on 12 June 2018)*

Nomination Committee

Mr. HUANG Shao Ru *(Chairman)*
Mr. CHANG Xuejun
Mr. NG Ying Kit *(appointed on 23 July 2018)*
Mr. XU Bin *(passed away on 12 June 2018)*

Registered Office

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

Corporate Website

www.grandocean65.com

Head Office and Principal Place of Business in Hong Kong

Suite 3103
Sino Plaza
255-257 Gloucester Road
Hong Kong

Principal Share Registrar and Transfer Office

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

Hong Kong Branch Share Registrar and Transfer Office

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

Principal Banker

Hang Seng Bank Limited
Standard Chartered Bank

Independent Auditor

BDO Limited
Certified Public Accountants

Legal Advisers

As to Hong Kong Law:
Michael Li & Co.

As to Cayman Islands Law:
Conyers Dill & Pearman

Stock Code

65

DEFINITIONS

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

"2009 Scheme"	a share option scheme adopted at an extraordinary general meeting of the Company held on 20 August 2009;
"2017 AGM"	an annual general meeting held by the Company on 15 June 2018;
"2018 EGM"	an extraordinary general meeting held by the Company on 17 July 2018;
"Amended and Restated Memorandum and Articles"	the memorandum and the articles of association of the Company adopted in an extraordinary general meeting held on 14 December 2016, and "Article" shall mean an article of the Articles of Association;
"Audit Committee"	the audit committee of the Company;
"Board"	the board of Directors of the Company;
"CG Code"	the Corporate Governance Code set out in Appendix 14 to the Listing Rules;
"Coal Mining Business"	production and sale of coal;
"Coal Upgrading Business"	provision of low-rank coal upgrading services;
"Company"	Grand Ocean Advanced Resources Company Limited, a company incorporated in the Cayman Islands with limited liability and the issued Shares of which are listed and traded on the Main Board of the Stock Exchange (Stock Code: 65);
"Director(s)"	the directors of the Company from time to time;
"Group"	the Company and all of its subsidiaries from time to time;
"HK$"	Hong Kong dollars, the lawful currency of Hong Kong;
"Hong Kong"	the Hong Kong Special Administrative Region of the PRC;
"INED(s)"	an independent non-executive Director(s) of the Company;
"Listing Rules"	the Rules Governing the Listing of Securities on the Stock Exchange, as amended or supplemented from time to time;
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules;
"New Companies Ordinance"	the Companies Ordinance (Chapter 622 of the Laws of Hong Kong), as amended or supplemented from time to time;

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

CHAIRMAN'S STATEMENT

In 2018, China's economy grew at its slowest pace in nearly 30 years and reported gross domestic product growth of 6.6% for the year. Along with the coal industry policies change of China over the past few years, China has been given the go-ahead for a number of big coal mines as it tried to ease concerns on fuel shortages amid a crackdown on small outdated coal mines and tightened environment protection measures. Notwithstanding Chinese government's industry reform on the supply side of coals, the overall business environment of China's coal industry remained stable for the Group's coal mining operations in 2018.

In June 2018, the ex-Chairman of the Company passed away. The passing away of Mr. Xu was a great loss to the Company, and caused adverse impacts to the Group's Coal Upgrading Business. Despite the efforts of the management to resolve such unanticipated incident, the management believed that the divestment of the Coal Upgrading Business would be the best way out for the Group as a whole.

Even though the Group discontinued its Coal Upgrading Business, the Group's financial position has improved evidently following the disposal of the Coal Upgrading Business.

Over the past few years, the Group has experienced major business cycles of the coal industry in China. The management has realised the limitation of the growth potential of its existing coal mining operations due to the constraint of the production capacity and the risks associated with the changes in industry policies.

In the near future, it is the objective of the Company to pursue new business opportunities in sectors of higher growth potential worldwide.

Last but not least, we would like to express my sincere gratitude to our staff for their faith in and devotion to the Company, and the Shareholders as well as business partners for their continued supports. The Group will stay focused on enhancing operation and capital efficiencies, with its endeavor to maximising shareholders' value for the Group in long term.

The board of Directors of the Company

29 March 2019

FINANCIAL HIGHLIGHTS

Financial Highlights

	2018 HK$'000	2017 HK$'000 (Restated and represented)	Change
Operating Results			
From continuing operations			
Revenue	**194,109**	111,842	73.6%
Gross profit	**73,533**	15,723	367.7%
Other operating expenses	**42,842**	–	100.0%
Finance costs	**717**	715	0.3%
Loss for the year attributable to owners of the Company	**27,018**	36,585	(26.2)%
Loss per share from continuing operations – Basic	**HK1.8 cents**	HK3.18 cents	(43.4)%
Financial Position			
Total assets	**368,498**	420,409	(12.3)%
Total liabilities	**165,159**	262,458	(37.1)%
Bank and cash balances	**155,635**	105,286	47.8%
Equity attributable to owners of the Company	**153,568**	126,487	21.4%
Financial Ratios			
Current ratio	**1.32**	0.80	65.0%
Gearing ratio	**6.7%**	24.9%	(73.1)%

Five-Year Financial Summary

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

Results

	Year ended 31 December				
	2018 HK$'000	2017 HK$'000 (Restated and represented)	2016 HK$'000 (Restated and represented)	2015 HK$'000 (Restated and represented)	2014 HK$'000 (Restated and represented)
Revenue					
From continuing operations	**194,109**	111,842	264,392	240,128	245,817
From discontinued operation	**–**	–	–	5,710	97,126
	194,109	111,842	264,392	245,838	342,943
Loss/(profit) from operations	**(29,644)**	(48,775)	(25,783)	(92,208)	33,194
Finance costs	**(717)**	(715)	(1,156)	(1,515)	(6,436)
Loss before tax	**(30,361)**	(49,490)	(26,939)	(93,723)	26,758
Income tax expense	**17,267**	(2,415)	(32,726)	(4,878)	(17,859)
Loss for the year from continuing operations	**(13,094)**	(51,905)	(59,665)	(98,601)	8,899
Profit/(loss) for the year from discontinued operation	**7,758**	(108,268)	(66,276)	(105,375)	(119,266)
Loss for the year	**(5,336)**	(160,173)	(125,941)	(203,976)	(110,367)
Attributable to:					
Owners of the Company	**(18,933)**	(143,604)	(120,645)	(171,236)	(113,502)
Non-controlling interests	**13,597**	(16,569)	(5,296)	(32,740)	3,135
	(5,336)	(160,173)	(125,941)	(203,976)	(110,367)

Five-Year Financial Summary (Continued)

Assets, Liabilities and Equity

	As at 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Restated)	(Restated)	(Restated)	(Restated)
Non-current assets	**176,608**	265,138	363,803	594,948	719,541
Current assets	**191,890**	155,271	124,942	146,560	206,322
TOTAL ASSETS	**368,498**	420,409	488,745	741,508	925,863
Non-current liabilities	**20,322**	68,435	60,159	85,670	104,167
Current liabilities	**144,837**	194,023	226,868	292,617	273,765
TOTAL LIABILITIES	**165,159**	262,458	287,027	378,287	377,932
NET ASSETS	**203,339**	157,951	201,718	363,221	547,931
Attributable to:					
Owners of the Company	**153,568**	126,487	156,459	310,216	458,344
Non-controlling interests	**49,771**	31,464	45,259	53,005	89,587
TOTAL EQUITY	**203,339**	157,951	201,718	363,221	547,931

Notes:

The results of the Group for the years ended 31 December 2017, 2016, 2015 and 2014 and of the assets, liabilities and equity of the Group as at these dates have been restated as a results of the prior year adjustments as stated on the note 5 to the consolidated financial statements.

The results of the Group for the year ended 31 December 2014 to 2017 have been restated and represented as a results of the reclassification of the Bags Business and Coal Upgrading Business to discontinued operation in 2016 and 2018, respectively as well as the prior year adjustments as stated on the note 5 to the consolidated financial statements.

The results of the Group for the year ended 31 December 2018 and of the assets, liabilities and equity of the Group as at 31 December 2018 are those set out on pages 71 to 75 of the audited financial statements respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Business and financial review

The Group recorded total revenue from continuing operations of approximately HK$194,109,000 for the year ended 31 December 2018, representing an increase of approximately HK$82,267,000 or approximately 73.6% as compared to the revenue from continuing operations of approximately HK$111,842,000 for the year ended 31 December 2017. The loss attributable to the owners of the Company (including continuing and discontinued operations) for the year ended 31 December 2018 amounted to approximately HK$18,933,000 as compared to approximately HK$143,604,000 for the year ended 31 December 2017. The Group reported its annual results for year ended 31 December 2018 in two segments, namely: (i) Coal Mining Business from continuing operations; and (ii) Coal Upgrading Business from discontinued operation.

The Coal Mining Business from continuing operations

Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited ("**Inner Mongolia Jinyuanli**"), an indirect non-wholly owned subsidiary of the Company, operates the Group's coal mine of the Inner Mongolia Mine 958 (the "**Inner Mongolia Mine 958**") in Inner Mongolia region with an allowed annual production capacity of 1.2 million tonnes. Despite the management of Inner Mongolia Jinyuanli had applied to the Land and Resources Bureau of Huolinguole City for increasing the allowed annual production capacity of the Inner Mongolia Mine 958 to 1.8 million tonnes in 2015 (the "**Application**"), the Application was yet to be approved due to the tightening PRC coal industry policies. Under this circumstances, the Application was considered declined, and the Inner Mongolia Mine 958 will have to then submit a new application in accordance with the latest PRC coal industry policies as and when appropriate.

In order to comply with the relevant PRC coal industry policies, the management of Inner Mongolia Jinyuanli maintained the coal production output to approximately 1.2 million tonnes during the year ended 31 December 2018. During the year ended 31 December 2018, approximately 1.2 million tonnes of coals were produced (year ended 31 December 2017: 1.18 million tonnes) and approximately 1.5 million tonnes of coals (year ended 31 December 2017: 0.93 million tonnes) and 0.28 million tonnes of waste gangue (year ended 31 December 2017: Nil) were sold. The segment profit of the Coal Mining Business from continuing operations for the year ended 31 December 2018 was approximately HK$32,758,000 as compared to segment loss of approximately HK$34,074,000 for the year ended 31 December 2017. The turnaround from segment loss was mainly due to: (i) the increase in quantity of coal sold; and (ii) no impairment loss on property, plant and equipment and intangible asset have been made during the year.

Besides, contingent liabilities in the amount of RMB2 million (approximately HK$2.3 million) was reported in the Group's consolidated financial statements for the years ended 31 December 2018 on a prudent basis, which represented the maximum amount of penalty as a result of over-production in the year 2016. As at the date of this annual report, Inner Mongolia Jinyuanli has not received any indication or formal notice of warning or penalty insofar.

Business and financial review (Continued)

The Coal Upgrading Business from discontinued operation

The Group commenced the construction of the coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC (the "**Coal Upgrading Plant**") in year 2012 held by Xilinhaote City Guochuan Energy Technology Development Co Ltd*（錫林浩特市國傳能源科技開發有限公司）("**Xilinhaote Guochuan**"), an indirect wholly-owned subsidiary of the Company, for the development of the Coal Upgrading Business. The Company entered into a license agreement on 1 December 2015 (the "**Licence Agreement**") with Mr. Xu Bin, the former Chairman and Executive Director of the Company ("**Mr. Xu**") and Gouden Kolen Company Limited, a company incorporated in the British Virgin Islands with limited liability which was wholly-owned by Mr. Xu, in relation to the licensing of the proprietary technologies (the "**Proprietary Technologies**"), representing the five PRC registered patents relating to the low-rank coal upgrading methodologies and manufacturing of steam digesters forming one of the prerequisite requirements of the coal upgrading production.

The commercial production of the Coal Upgrading Plant had been further postponed in 2018 as the technical consultant of the Proprietary Technologies engaged by Mr. Xu was designing a spiral device in order to resolve the technical issue (the "**Technical Issue**") in relation to the obstruction of the valves of the autoclaves during the process of high-pressured steaming when the Coal Upgrading Plant was preparing to commence commercial production in October 2017. Unfortunately, Mr. Xu, (the "**late Mr. Xu**"), being the owner of the Proprietary Technologies and the key Director of the Company responsible for the development and operations of the Coal Upgrading Business, passed away in June 2018 unexpectedly.

The passing away of Mr. Xu casted significant uncertainties on the extension of the licensing of the Proprietary Technologies to the Coal Upgrading Plant expired in December 2018 and the unresolved Technical Issue as the technical consultant withheld its technical services offered to the late Mr. Xu and on-site technical services to the Coal Upgrading Plant. As such, the Company decided to temporarily suspend the Coal Upgrading Business in July 2018. The segment profit for the year from the Coal Upgrading Business of approximately HK$7,758,000 was arrived at by deducting the loss of the Coal Upgrading Business of approximately HK$12,837,000 for the year ended 31 December 2018 from the gain on the disposal of Coal Upgrading Business. The loss for the year mainly represents the impairment loss on the property, plant and equipment made during the first half of year 2018 of approximately HK$8,486,000.

On 30 November 2018, (i) Wealthy Tone Worldwide Limited and Shanghai Wealthy Ocean International Trading Co Ltd ("**Shanghai Wealthy**"), each being an indirect wholly-owned subsidiary of the Company, as vendors, entered into a sale and purchase agreement (the "**XCG SPA**") with Shenzhen Yuhai Investment Co., Ltd*（深圳市鈺海投資有限公司）as purchaser ("**Shenzhen Yuhai**") to sell the entire equity interest in Xilinhaote Guochuan at a consideration of RMB8 million (approximately HK$9 million); and (ii) Wealth Business Investment Limited, an indirect wholly-owned subsidiary of the Company as vendor, entered into a sale and purchase agreement (the "**BG SPA**") with Shenzhen Yuhai to sell the entire equity interest in Beijing Guochuan New Energy Development Co., Ltd*（北京國傳能源開發有限公司）("**Beijing Guochuan**") at a consideration of RMB1 (approximately HK$1) (collectively the "**Disposals**") conditional on the completion of the XCG SPA. All the conditions precedent under the XCG SPA and the BG SPA had been fulfilled and the Disposals were completed on 31 December 2018. The completion of the Disposals enabled the Group to reallocate the financial resources for its existing business. The gain on the Disposals in the amount of HK$20,595,000 was attributable to (i) net proceeds received from the Disposals; and (ii) the combined net liabilities position of the Disposals group and (iii) the realisation of the translation exchange reserve.

Business and financial review (Continued)

Impairment assessment on property, plant and equipment and intangible asset of the Coal Mining Business

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

No impairment have been made on the Coal Mining CGU for the year ended 31 December 2018. The key assumptions and parameters in the cash flow projections of the Coal Mining CGU as at 31 December 2017, 30 June 2018 and 31 December 2018 are set out below.

Key assumptions	**31 December 2017**	**30 June 2018**	**31 December 2018**
Projected annual coal production output for the period until the expiry date of the business license (note 1)	1,003,600 tonnes	1,003,600 tonnes	1,003,600 tonnes
Average unit coal selling price per tonne (including value-added tax) (note 2)	2018: RMB135 2019: RMB140 2020 onwards: increase with inflation rate	2018: RMB137 2019: RMB141 2020 onwards: increase with inflation rate	2019: RMB136 2020: RMB140 2021 onwards: increase with inflation rate
Inflation rate	2.5%	2.5%	2.5%

Notes:

(1) Due to the recent coal industry policies of the compression of production capacity in the PRC, the projected annual coal production output was adjusted from 1,200,000 tonnes to 1,003,600 tonnes.

(2) The estimated unit coal price per tonne (average selling price) was determined by referencing to: (i) the average unit selling price of coal for the year ended 31 December 2018 of Inner Mongolia Jinyuanli; (ii) the prevailing market price of coal in the Inner Mongolia Region; and (iii) the historical average unit selling price of coal over past few years of Inner Mongolia Jinyuanli.

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

Business and financial review (Continued)

Selling and distribution expenses

The selling and distribution expenses of the Group from continuing operations for the year ended 31 December 2018 was 100% attributed to the Coal Mining Business of approximately HK$6,375,000, representing an increase approximately HK$767,000 as compared to the corresponding period in year 2017 of approximately HK$5,608,000. The increase in selling and distribution expenses was generally in line with the increase in the quantity of coals sold during the year ended 31 December 2018.

Administrative expenses

The administrative expenses of the Group from continuing operations for the year ended 31 December 2018 amounted to approximately HK$53,876,000, representing a increase of approximately HK$5,374,000 from approximately HK$48,502,000 in the year ended 31 December 2017. The increase in administrative expenses was mainly attributable to the increase in staff costs during the year.

Finance costs

The finance costs of the Group from continuing operations for the year ended 31 December 2018 in the amount of HK$717,000 represented the interest expenses of the loans from a former executive director.

Other operating expense

Other operating expense of the Group from continuing operations mainly represented the equity-settled share-based payments of approximately HK$42,310,000 for the share options granted during the year.

Loss for the year

Net loss attributable to the owners of the Company for the year ended 31 December 2018 decreased to approximately HK$18,933,000 from last year of approximately HK$143,604,000. The net loss attributable to the owners of the Company from continuing operations of approximately HK$27,018,000 was mainly due to (i) segment profit of the Coal Mining Business; and (ii) administrative expenses of the Group and the incurred equity-settled share-based payments during the year.

Business and financial review (Continued)

Actions taken and proposed plan to address the modified auditor's opinion for the year ended 31 December 2017 and the qualified auditors's opinion for the year ended 31 December 2018

Modified Opinion in 2017	Actions Taken in 2018	Status for the year ended 31 December 2018 and proposed plan, if required
Disclaimer of opinion on the impairment of property, plant and equipment and deposit under non-current assets for the Coal Upgrading CGU	Disposal of the Coal Upgrading CGU, completion took place in December 2018.	Qualified opinion for the year ended 31 December 2018 on the consequential effect of the opening/closing balances (at completion of the Disposal) of Coal Upgrading CGU as a result of the uncertainty in the amounts of the impairment losses recognised in prior years and current year as well as the disposal gain recognised in current year. Such uncertainty may have significant effect on the profit or loss and the movement of cashflow relating to Coal Upgrading CGU during the year ended 31 December 2018. As the qualified opinion does not have impact on the consolidated statement of financial position of the Group as at 31 December 2018, the Company considers the qualified opinion will be addressed in the financial year ending 31 December 2019 accordingly.
Disclaimer of opinion on the impairment of property, plant and equipment and intangible asset for the Coal CGU	Inner Mongolia Jinyuanli adjusted its coal production output to comply with PRC coal industry policies.	Qualified opinion for the year ended 31 December 2018 on the consequential effect of the opening balances and comparability of the relevant current year figures. The Company considers the qualified opinion can be fully addressed in the financial year ending 31 December 2019.
Disagreement on the measurement of land use rights occupied by Coal Upgrading CGU	The Company has adopted the auditors' opinion on the accounting treatment in its interim results for the six months ended 30 June 2108 and the Land Use Right was sold along with the Disposal.	Resolved in 2018.
Material uncertainty on going concern	Improvement in the financial position of the Group and the Group reported net current assets and net cash inflow from continuing operations of approximately HK$47,053,000 and HK$64,529,000 respectively during the year ended 31 December 2018.	Resolved in 2018.

Business and financial review (Continued)

Other loans under current liabilities

Other loans under current liabilities included the loans from the late Mr. Xu and interest payable of approximately HK$13,653,000.

On 2 January 2014, Mr. Xu, as lender, agreed to grant to the Company an unsecured loan of HK$4 million at an interest rate of 5% per annum. This loan had been applied as general working capital of the Company. Approximately HK$1 million of this loan was repaid in year 2017 and the remaining loan of HK$3 million will be due on or before 31 December 2019.

On 24 March 2014, Beijing Guochuan, as borrower, entered into a loan agreement with Mr. Xu, as lender, pursuant to which Mr. Xu agreed to grant to Beijing Guochuan an unsecured and interest-free loan of RMB20 million as general working capital of the Group (the "**Original Loan Amount**"). First part of the Original Loan Amount in the book of Beijing Guochuan amounted to RMB8 million was repaid in year 2016 and the second part of the Original Loan Amount in the amount of RMB12 million had been assumed by Shanghai Wealthy, as part of the consideration of intra group transfer of 37.5% equity interests in Xilinhaote Guochuan held by Beijing Guochuan to Shanghai Wealthy, being part of the Group's restructuring. Xilinhaote Guochuan remained as an indirect wholly-owned subsidiary of the Company after such intra group transfer. The remaining of the Original Loan Amount of RMB12 million (approximately HK$13.7 million) in the book of Shanghai Wealthy is unsecured, interest-free and due on or before 31 December 2019 (the "**Current Loan**"). The Current Loan had been partially repaid in year 2018 in the amount of RMB6,350,000 (approximately HK$7,231,000) and the balance of the Current Loan was reduced to RMB5,650,000 (approximately HK$6,434,000) as at 31 December 2018. Subsequent to 31 December 2018, the Company further repaid the Current Loan in the amount of RMB1,980,000 (approximately HK$2,255,000).

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

Fundraising activity

In July 2017, the Company raised gross and net proceeds from a placing of a maximum of 1,000,000,000 new Shares at a placing price of HK 0.110 per share of the company (the "**Placing**") in the amounts of approximately HK$110.0 million and HK$106.8 million respectively, the proceeds were intended to be applied for: (i) repayment of the overdue construction payables of the Coal Mining Business and Coal Upgrading Business; (ii) development of the Coal Upgrading Business; (iii) repayment of the loan due to a non-controlling shareholder; and (iv) the general working capital of the Company.

As at 31 December 2018, the net proceeds from the Placing were utilised by approximately of HK$79.1 million comprised of (i) repayment of overdue construction payables of the Coal Mining Business of approximately HK$39.0 million; (ii) development of Coal Upgrading Business of approximately HK$7.6 million; (iii) repayment of the loan due to a non-controlling shareholder of approximately HK$8.0 million; and (iv) the general working capital of the Company of approximately HK$24.5 million. Following the completion of the Disposal, the Group will not apply further proceeds on the Coal Upgrading Business. The management of the Company will effectively manage the use of its funding with an aim to maintain a healthy financial position of the Group.

Liquidity and financial resources

As at 31 December 2018,

(a) the aggregate amount of the Group's: (i) restricted bank deposits; and (ii) bank and cash balances was approximately HK$162,956,000 (as at 31 December 2017: HK$116,023,000);

(b) the Group's total borrowings comprised of loans from a director, other loans and loan from a non-controlling shareholder, totaling to approximately HK$13,653,000 (as at 31 December 2017: HK$39,270,000);

(c) the Group's total gearing ratio was approximately 6.7% (as at 31 December 2017: 24.9% (restated)). The gearing ratio was calculated as the Group's total borrowings divided by total equity; and

(d) the current ratio of the Group was approximately 1.32 (as at 31 December 2017: 0.80 (restated)). The current ratio was calculated as total current assets divided by total current liabilities.

The Board will continue to closely monitor the financial position of the Group to maintain its financial capacity for future operations and business opportunities.

Pledge of assets

As at 31 December 2018, the Group had no pledge of assets (as at 31 December 2017: Nil).

Foreign currency risk

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

Acquisition and disposal of material subsidiaries and associates

Except for the disposal of the Coal Upgrading Business, the Group did not acquire or dispose any other material subsidiaries or associates during the year ended 31 December 2018.

Significant investment

The Group did not purchase, sell or hold any significant investments during the year ended 31 December 2018.

Contingent liabilities

As at 31 December 2018, contingent liabilities in the amount of RMB2 million (approximately HK$2.3 million) was booked since year 2016 which represents the maximum amount of penalty may arise as a result of over-production of the Coal Mining Business in 2016.

Capital commitment

As at 31 December 2018, the Group have had no capital commitment while the capital commitment in the amount of approximately HK$24,809,000 as at 31 December 2017 (restated) was attributable to the construction agreements contracted for the Coal Upgrading Plant which did not realise.

Employees

The Group employed 449 full-time employees as at 31 December 2018 (as at 31 December 2017: 572) in Hong Kong and the PRC. Remuneration of the staff comprised monthly salaries, provident fund contributions, medical benefits, training programs, housing allowances, discretionary bonus and discretionary options based on their contributions to the Group. Staff costs (including Director's emoluments) for the year ended 31 December 2018 from continuing operations were HK$87,613,000 (For the year ended 31 December 2017: HK$69,370,000).

Prospects

The Chinese Government's coal industry reforms on the supply side in the past few years have eliminated the production capacities of coal enterprises and have continual effects in stabilising the coal prices in the PRC. The coal prices in the PRC have remained steady in last two years after recovery from the slump in 2016.

Going forward, the Group expects that the Chinese government is likely to stay committed to the supply side reform in the coal industry over the next few years. In view of a serious industrial accident of a coal mine in Shaanxi Province of the PRC recently, it is expected that the Chinese government would put on more stringent measures and controls on the safety of production of coal mines.

As at the date of this annual report, Inner Mongolia Jinyuanli has not been granted the approval to increase its annual production capacity. In view of the fast changing industry policies, the management of the Inner Mongolia Jinyuanli will pay attention to the latest industry policies to review if there will be any occasion for the increase in production capacity. The Group's coal production output is expected to maintain at a level complying with relevant industry rules and regulations at the time being. With an aim to improve the financial performance of the Group, the Group will strive to implement adequate cost saving measures and better sales strategies to enhance the operation efficiency of the Coal Mining Business.

Following the Disposals, the Coal Mining Business remained the only business segment of the Group. The Board considers that the existing business portfolio of the Group is highly focused and exposes to the risk of PRC's coal industry policy changes.

With the improvement of the Group's financial position upon the completion of the Disposal, the Company will continue to explore business opportunities for widening the Group's business scope and extending its resources into sectors offering higher growth momentum, such as technology-related and telecommunication sectors. In addition, it is also the current intention of the Company to identify suitable business partners for better reach of business and investment opportunities.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Ng Ying Kit

Aged 41, joined the Company as the vice president of the business development and corporate finance division in June 2014, and was appointed as an executive Director and the compliance officer of the Company in February 2015. He is a member of the Nomination Committee and the Remuneration Committee. He is mainly responsible for business development and corporate finance function of the Group and holds directorships in various subsidiary companies of the Group. Mr. Ng has more than 10 years of experience in corporate finance and investment banking and has considerable experience in mergers and acquisitions, debt and equity financing and corporate strategic planning. Prior to joining the Company, he held senior management position in a Hong Kong listed company overseeing corporate finance function. Mr. Ng graduated from the University of Hong Kong with a Bachelor's degree in Electrical and Electronic Engineering.

Ms. Huo Lijie

Aged 54, joined the Company as the financial director of the Group's indirect wholly owned subsidiary, Xilinhaote City Guochuan Energy Technology Development Co. Ltd in August 2012, and was appointed as an executive Director of the Company on 11 January 2016 and holds directorships in various subsidiary companies of the Group. She obtained a Bachelor's degree of Economics (Finance) from Nankai University in Tianjin, the PRC in 1988. Ms. Huo had worked as an accountant at Agricultural Bank of China (Changchun City branch) in the PRC from July 1988 to August 1989. Ms. Huo later served as an accountant, the settlement officer and the business manager at the foreign exchange department of Agricultural Bank of China (Jilin Province branch) in the PRC from September 1990 to November 2003.

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

Mr. Ren Hang

Aged 35, was appointed as an executive Director of the Company in July 2018. He obtained a Bachelor's degree of Business Administration from Yang-En University in Quanzhou City, Fujian Province, the People's Republic of China in 2006. Mr. Ren has more than 10 years of experience in corporate management and project investment analysis. He worked as Assistant General Manager in Lianhe (Fujian) Enterprise Management Co Ltd from December 2006 to September 2011. Mr. Ren then served as Vice President in a PRC real estate development company established in Hong Kong overseeing investment analysis from September 2011 until present.

Independent Non-executive Directors

Mr. Kwok Chi Shing

Aged 57, has been appointed as an independent non-executive Director of the Company since January 2006. He is the chairman of the Audit Committee. Mr. Kwok graduated from the University of Aberdeen, England in 1986 and obtained a Master of Arts in Accountancy with Economics with Honours, and is a fellow member of the Hong Kong Institute of Certified Public Accountants. Mr. Kwok has extensive experience in corporate and financial management work especially for international cross border transactions, real estate development and property management industries and he was the president of the Hong Kong Association of Financial Advisors. In addition, he has extensive experience in public sector work both in Hong Kong and the PRC.

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

Mr. Huang Shao Ru

Aged 46, was appointed as an independent non-executive Director of the Company in April 2013. He is a member of the Audit Committee and was re-designated as the chairman of the Nomination Committee and the Remuneration Committee on 1 March 2016. Mr. Huang graduated from the school of Distance Education of Beijing Jiaotong University, majoring in business and administration and has over 22 years of managerial and international trade experience.

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

Mr. Chang Xuejun

Aged 48, was appointed as independent non-executive Director of the Company and a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee on 17 March 2016. Mr. Chang is a qualified lawyer in the PRC. He graduated from Northwest University of Political Science and Law in Xi'an City, the PRC in 1993. Mr. Chang has more than 20 years' legal experience. He had been working as a secretary and assistant judge at the Intermediate People's Court in Lanzhou City, Gansu Province, the PRC from August 1993 to May 1999. He has joined LI & PARTNERS Attorneys at Law in Shenzhen, the PRC as a lawyer since May 1999. Mr. Chang is currently the partner of LI & PARTNERS Attorneys at Law in Shenzhen, the PRC.

Senior Management

Ms. Wan Shui Wah
Aged 39, the group financial controller and company secretary of the Company. She joined the Company and was appointed to the positions in February 2015. Ms. Wan received a Bachelor's degree in Accounting from the Hong Kong Polytechnic University and is a fellow member of the Hong Kong Institute of Certified Public Accountants. She has extensive experience in the auditing, accounting and finance fields.

Mr. Zhang Xiaolai
Aged 55, the general manager of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited, the Group's indirect non-wholly owned subsidiary. Mr. Zhang joined the Group in June 2011 and promoted as the deputy general manager and general manager in December 2013 and June 2016 respectively. Mr. Zhang graduated from Heilongjiang University in the PRC in 1995 with major in business administration. Prior to joining the Group in June 2011, Mr. Zhang served as general manager in technology and mining companies and has more than 20 years of experiences in production, operation and management.

Mr. Wang Yun Lung
Aged 55, the financial director of Inner Mongolia Yuan Yuan Energy Group Jinyuanli Underground Mining Company Limited, the Group's indirect non-wholly owned subsidiary. Mr. Wang graduated from the Jilin Radio and TV University in the PRC in 1989 with major in financial accounting. Prior to joining the Group in August 2007, Mr. Wang served as financial controller in construction and technology development companies and has more than 25 years of experience in financial management.

CORPORATE GOVERNANCE REPORT

Corporate Governance

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

The Company has complied with the applicable code provisions as set out in the CG Code throughout 2018 except for the following deviations:

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive should be separate and should not be performed by the same individual. Following the death of Mr. Xu Bin, the former Chairman and executive Director of the Company and resignation of Mr. Zhang Fusheng, the former executive Director of the Company, the Board does not have any Chairman and chief executive officer. The duties and responsibilities of the Company's business are handled by the existing executive Director and senior management of the Company so as to achieve the overall commercial objectives of the Company. The Company looking for suitable person to fill the vacancy of the chairman and chief executive officer.

Under the code provision A.6.7 of the CG Code, independent non-executive Directors and other non-executive Directors should attend general meetings and develop a balanced understanding of the views of shareholders. Mr. Huang Shao Ru, an INED and the chairman of the Nomination Committee and Remuneration Committee and Mr. Kwok Chi Shing, an INED and the chairman of Audit Committee were not able to attend the 2017 AGM due to their personal commitments. Mr. Chang Xuejun, an INED and a member of the Nomination Committee, Remuneration Committee and Audit Committee, attended at the 2017 AGM by telephone conference call to ensure an effective communication with the shareholders thereat.

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

Model Code for Securities Transactions by Directors

The Company has adopted the Model Code as the required standard governing securities transactions by the Directors. The Company made specific enquires of all the Directors and all the Directors have confirmed that they had complied with the required standards set out in the Model Code during the 2018.

Board of Directors and Board Meetings

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

Board Members

As at 31 December 2018, the Board comprised six Directors, including three executive Directors and three INEDs.

Executive Directors

Mr. Ng Ying Kit
Ms. Huo Lijie
Mr. Ren Hang *(appointed on 23 July 2018)*
Mr. Xu Bin *(Chairman) (passed away on 12 June 2018) (the "**late Mr. Xu**")*
Mr. Zhang Fusheng *(Chief Executive Officer) (resigned on 23 July 2018)*

Independent Non-Executive Directors

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

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

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

The Board is responsible for the leadership and control of the Company and overseas the Group's business, strategic decisions and performances. The Board delegates its authority and responsibilities to the senior management for the day-to-day management and operations of the Group. Approval has be obtained from the Board prior to any significant transactions being entered into by the senior management. Besides, the Board has established Board Committee and has delegated to these Board committee various responsibilities as set out in their respective terms of reference.

During 2018, the Company had INEDs who have appropriate and sufficient experience and qualifications to carry out their duties so as to protect the interests of the Shareholders. The Company has received an annual confirmation from each of the INEDs as at 31 December 2018 on their respective independence pursuant to Rule 3.13 of the Listing Rules and the Company considered each of them to be independent. Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun are currently the INEDs.

Board Members (Continued)

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

Directors	Number of regular board meeting attended/ held	Regular board meeting attendance percentage	2017 AGM Attended/ held	2017 AGM Attendance percentage	2018 EGM Attended/ held	2018 EGM Attendance percentage
Mr. Xu Bin (1)	1/4	100%	N/A	N/A	N/A	N/A
Mr. Zhang Fusheng (2)	1/4	100%	1/1	100%	0/1	0%
Mr. Ng Ying Kit	4/4	100%	1/1	100%	1/1	100%
Ms. Huo Lijie	4/4	100%	1/1	100%	1/1	100%
Mr. Ren Hang (3)	2/4	100%	N/A	N/A	N/A	N/A
Mr. Kwok Chi Shing (4)	4/4	100%	0/1	0%	1/1	100%
Mr. Huang Shao Ru (4)	4/4	100%	0/1	0%	1/1	100%
Mr. Chang Xuejun (5)	4/4	100%	1/1	100%	1/1	100%

Notes:

(1) The late Mr. Xu passed away on 12 June 2018.

(2) Mr. Zhang Fusheng resigned as executive Director on 23 July 2018.

(3) Mr. Ren Hang appointed as executive Director on 23 July 2018.

(4) Mr. Kwok Chi Shing and Mr. Huang Shao Ru attended the 2018 EGM by telephone conference call.

(5) Mr. Chang attended the 2017 EGM and the 2018 EGM by telephone conference call.

(6) The 2017 AGM and the 2018 EGM were held on 15 June 2018 and 17 July 2018 respectively.

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

Corporate Governance Functions

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

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

Remuneration Committee

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

As at 31 December 2018, the Remuneration Committee comprised two INEDs, namely Mr. Huang Shao Ru (the chairman) and Mr. Chang Xuejun, and one executive Director, Mr. Ng Ying Kit (appointed as a member of Remuneration Committee on 23 July 2018). Mr. Xu Bin ceased as a member of Remuneration Committee as the late Mr. Xu passed away on 12 June 2018.

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

During 2018, three meetings were held by the Remuneration Committee to review the Company's remuneration policy, determine the remuneration packages for executive Directors, make recommendations of the remuneration of non-executive Directors to the Board and approve the terms of the service agreements for executive Directors. The attendance record of each member of the Remuneration Committee is as follows:

	Number of the Remuneration Committee meeting attended/held	Attendance percentage
Mr. Huang Shao Ru	3/3	100%
Mr. Xu Bin (1)	1/3	100%
Mr. Chang Xuejun	3/3	100%
Mr. Ng Ying Kit (2)	1/3	100%

Notes:

(1) The late Mr. Xu passed away on 12 June 2018.

(2) Mr. Ng Ying Kit appointed as a member of Remuneration Committee on 23 July 2018.

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

Nomination Committee

The Company established the Nomination Committee in September 2005.

As at 31 December 2018, the Nomination Committee comprised two INEDs, namely Mr. Huang Shao Ru (the chairman) and Mr. Chang Xuejun, and one executive Director, Mr. Ng Ying Kit (appointed as a member of Nomination Committee on 23 July 2018). Mr. Xu Bin ceased as a member of Remuneration Committee as the late Mr. Xu passed away on 12 June 2018.

The role and function of the Nomination Committee include, among others, reviewing the structure, size and composition of the Board at least annually, assessing the independence of INEDs and the selection and recommendation of Directors for appointment and removal. In assessing the Board composition, the Nomination Committee would take into account various aspect set out in the board diversity policy. The Nomination Committee would discuss and agree on measurable objectives for achieving diversity on the Board, where necessary, and recommend them to the Board for adoption. In doing so, the Nomination Committee would consider the past performance, the individual's qualification and, for INEDs, independence, as well as the general market conditions in selecting and recommending candidates for directorship.

During 2018, two meetings were held by the Nomination Committee to review the structure, size and composition of the Board and make recommendations to the Board on appointment of Directors. The attendance record of each member of the Nomination Committee is as follows:

	Number of the Nomination Committee meeting attended/held	Attendance percentage
Mr. Huang Shao Ru	2/2	100%
Mr. Xu Bin (1)	1/2	100%
Mr. Chang Xuejun	2/2	100%
Mr. Ng Ying Kit (2)	N/A	N/A

Notes:

(1) The late Mr. Xu passed away on 12 June 2018.

(2) Mr. Ng Ying Kit appointed as a member of Nomination Committee on 23 July 2018.

Audit Committee

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

As at 31 December 2018, the Audit Committee comprised three INEDs, namely Mr. Kwok Chi Shing (the chairman), Mr. Huang Shao Ru and Mr. Chang Xuejun. Among them Mr. Kwok Chi Shing possesses appropriate professional accounting and related financial management expertise in compliance with the requirements set out in Rules 3.10(2) of the Listing Rules.

Audit Committee (Continued)

The Audit Committee held three meetings during 2018 to review interim and annual financial results and reports, significant issues on the financial reporting and compliance procedures, internal control and risk management systems, the effectiveness of the Group's internal audit function and scope of work and appointment of external auditors. Details of the attendance of the Audit Committee meetings are as follows:

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

During 2018, the Group's unaudited interim results for the six months ended 30 June 2018 and annual audited results for the year ended 31 December 2018 had been reviewed by the Audit Committee, which was of the opinion that the preparation of such results complied with the applicable accounting standards and requirements and that adequate disclosure had been made.

Directors' Training

Pursuant to A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills. The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. From time to time, the Directors are provided with written materials to develop and refresh their professional skills. The Directors had fulfilled the relevant requirements under A.6.5 of the CG Code during 2018.

Company Secretary's Training

Pursuant to Rule 3.29 of the Listing Rules, the company secretary of the Company (the "**Company Secretary**") must take no less than 15 hours of relevant professional training in each financial year. The Company Secretary, Ms. Wan Shui Wah, provided her training records to the Company, indicating that she has taken no less than 15 hours of relevant professional training by means of attending seminars and reading relevant guideline materials during 2018.

Independent Auditor's Remuneration

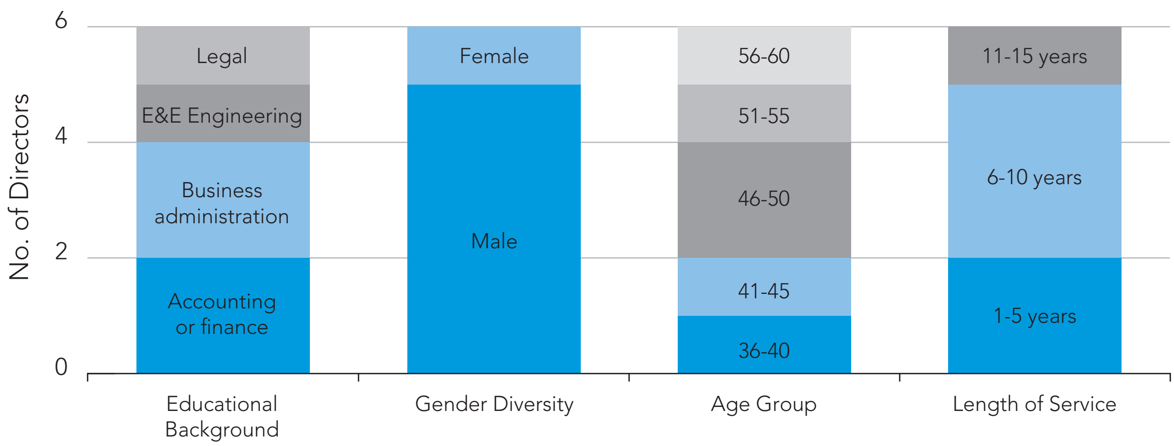
The Audit Committee is responsible for considering the appointment of the external auditor and reviewing any non-audit functions performed by the external auditor, including whether such non-audit functions could lead to any potential material adverse effect on the Company. The fees received and receivable by the independent auditor of the Company in respect of audit services and non-audit services for 2018 amounted to approximately HK$1,380,000 (2017: HK$1,000,000) and HK$130,000 (including review the disclosure of 2018 interim report according to the agreed-upon procedures and continuing connected transactions of the Group for 2018) (2017: HK$80,000, including review the disclosure of 2017 interim report according to the agreed-upon procedures and continuing connected transactions of the Group for 2017) respectively.

Board Diversity Policy

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

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

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



Remuneration of Directors and Senior Management

Particulars of the Directors' remuneration for 2018 are set out in Note 15 to the consolidated financial statements.

Pursuant to code provision B.1.5 of the CG Code, the remuneration of the members of the senior management (other than the Directors) whose particulars are contained in the section headed "Profiles of Directors and Senior Management" in this annual report for 2018 by band is set out below:

Remuneration band	**Number of individuals**
Nil – HK$1,000,000	–
HK$1,000,001 – HK$1,500,000	2
HK$1,500,001 – HK$2,000,000	1
	3

Directors' and Independent Auditor's Responsibilities for Financial Statements

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements of the Group for the year ended 31 December 2018.

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

In addition, BDO Limited has stated in the independent auditor's report its reporting responsibilities on the Company's consolidated financial statements for the year ended 31 December 2018.

Risk Management and Internal Controls

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

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

The Board conducted a review and assessment of the effectiveness of the Group's risk management and internal control systems and procedures in 2018 through the discussions with all the business segments heads, the management of the Group and members of the Audit Committee. The review covered financial, operational and compliance controls, which include fixed assets management, purchasing and payment cycle, inventory management, credit risk management and payroll handling, to ensure the adequacy of resources, staff qualifications and experience, training programmes and budget of the Company's accounting and financial reporting functions. The management of each business segment was responsible for its daily operations and operational risks and implementation of mitigation measures. The Board considers that the risk management and internal control systems are effective and adequate and that the Company has complied with the code provisions relating to risk management and internal control of the CG Code.

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

Constitutional Documents

There were no changes in the constitutional documents of the Company during 2018.

Dividend

The Company had a dividend policy. The Board has the discretion to declare and distribute dividends to the shareholders of the Company after taking into account factors such as financial performance, working requirement and external economic conditions. The Directors do not recommend any dividend for the year ended 31 December 2018 (2017: Nil).

Shareholders' Rights

Convening of EGM and putting forward proposals

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

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

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

Investors' Relations

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

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

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1. Introduction

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

This report summarises several subjects of the Group's business practices for the Environment Social Governance (referred to as the "**ESG**") report (referred to as the "**Report**") and its relevant implemented policies and strategies in relation to the Group's operational practices and environmental protection.

The Report covers the period from 1 January 2018 to 31 December 2018 (the "Reporting Period" or the "FY2018").

2. Reporting Framework

The report has been prepared with reference to the ESG Reporting Guide set out in Appendix 27 to the Main Board Listing Rules of The Stock Exchange of Hong Kong Limited (the "**SEHK**").

3. Reporting Scope

The General Disclosure of the environmental and social policies and measures in this Report and the compliance issues cover the entire group, and the disclosure scope of the Environmental Key Performance Indicators (referred to as the "**KPI**") section of the Report covers the Group's headquarter in Hong Kong and its operation sites in the PRC.

The Group's PRC operation represents the majority of the Group's environmental and social impacts, and the impacts from its headquarter office in Hong Kong is minimal. Thus, this ESG Report content focus mainly on the mining site of coal mining business in Inner Mongolia, the PRC, unless stated otherwise.

4. Comments and Feedback

The progress of the Group depends in part on stakeholders' valuable comments. For any doubts about or advice as regards to this ESG Report, please forward your comments and suggestions to Suite 3103, Sino Plaza, 255-257 Gloucester Road, Hong Kong for the attention of the Board or the Company Secretary.

5. Stakeholder Engagement

The Group believes that understanding the views of the stakeholders lays a solid foundation to the long-term growth and success of the Group. The Group has a wide network of stakeholders, including employees, customers, suppliers and business partners, investors, government and community.

The Group develops multiple channels to the stakeholders which summarised in the following table which provide them with the opportunities to express their views on the Group's sustainability performance and future strategies. To reinforce mutual trust and respect, the Group is committed to maintaining enduring communication channels, both formally and informally, with stakeholders to enable the Group to better shape its business strategies in order to respond to their needs and expectations, anticipate risks and strengthen key relationships. The information collected through different communication processes serves as an underlying basis for the structure of this ESG Report.

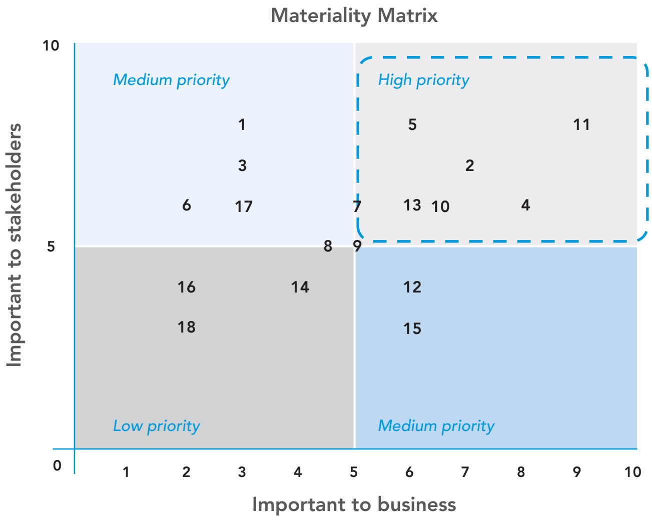
Stakeholder Groups	Engagement channels	Possible concerned issues
Investors	• General meetings • Regular corporate publications including financial reports • Circulars and announcements • Corporate website • Direct communication • Meetings and responses to phone and written enquiries	• Business strategies and sustainability • Financial performance • Corporate governance
Customers	• Direct communication • Emails • Business meetings	• Service quality and reliability • Customers information security • Business ethics
Employees	• Appraisals • On-the-job coaching • Trainings • Internal memorandum • Human resources manual • Exit interview	• Training and development • Employee remuneration • Rights and benefits • Working hours • Occupational health and safety • Equal opportunities
Suppliers and business partners	• Business meetings • Tendering for procurement of products or services	• Fair competition • Fulfillment of promises • Payment schedule
Government and other regulatory authorities	• Statutory filings and notification • Regulatory or voluntary disclosures	• Compliance with law and regulations • Treatment of inside information • Co-operation with enquiries
Local community	• Community activities • Donations	• Environmental protection • Fair employment opportunities

6. Materiality Assessment

The Group has maintained close communication with the stakeholders since the Group listed in Hong Kong Stock Exchange. Through ongoing discussions and direct communications with the stakeholders, the Group understands the main concerns and material issues that matter most to the stakeholders. The main concerns and material issues are listed below:

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

Pursuant to environmental and social issues based on the ESG Reporting Guide within the scope of sustainability and the information collected from the stakeholders and the assessments of their importance on business, the Group built a two-dimensional materiality matrix and identified the following issues that are in high priority to the stakeholders and the Group. The priorities are set based on the management's view as well as stakeholders' feedback.



Number	Topics
2	Greenhouse Gas Emission
4	Energy Consumption
5	Water Consumption
7	Environment Risk Management
9	Employment and Remuneration Policies
10	Equal Opportunity
11	Employees' Health and Workplace Safety
13	Anti-Child and Forced Labor

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

7. Approach to Sustainability Development

As a responsible company, the Group continues to step up for sustainability measures as a corporate responsibility as well as meeting the customers' standards. To make the Group's investors and stakeholders properly informed for assessment, the Group has set out below its efforts to minimise the negative influence to the environment, promote the Group's employees' well-being and contribute to the community during the Reporting Period.

8. Environmental Responsibility

Coal mining operation is closely related to the ecological environment. Coal mining, in nature, is a kind of exploration of natural resources. Coal production process requires a lot of water and energy. Moreover, plenty of coal dust and noise will be generated during the coal mining operation. Coal mining business significantly influences the surroundings ecologically throughout the coal mining operation from exploration and development, mining, processing, loading and transportation to rehabilitation.

Being aware of the environmental impact arisen from the coal mining processes, the Group is highly responsible to the environment. In addition to the compliance with all appropriate laws and regulations of the Ministry of Environmental Protection of the PRC, the Group strives to achieve sustainable development in the coal mining operation.

The Group is committed to endorsing a green environmental protection enterprise culture in the business development. Geological and mining specialists are involved in the decision making and planning process that help to achieve the goal in a much greener and environmental-friendly manner. With a series of environmental policies established, the Group takes measures to minimise the potential adverse impact on the environment and preserve natural resources arising from the operation and activities.

Owing to the nature of the business, the Group's commitment to the environment focuses on the reduction of emission, the efficiency of energy and water usage, as well as the conservation of ecological environment.

Environmental Management

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

The Group strives to ensure the product safety for consumers and protect environment and local communities where the coal production takes place. The Group understands and acknowledges that in order to maintain the coal production process as environmental friendly as possible, the environmental issues must be managed properly. Thus, the Group regularly monitors and measures its coal production activities to ensure they are adhering to the national standards. The scope of monitoring measures undertaken at the coal mining operation includes noise, water, dust, and ecological restoration. The results of the collected monitoring data are used to identify and address possible measures that can diminish the adverse impacts of its operations on the environment.

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

The management team strives to ensure that the Group has complied with the relevant environmental legislations, including but not limited to:

- The Coal Law of the PRC《中華人民共和國煤炭法》
- Mineral Resources Law of the PRC《中華人民共和國礦產資源法》
- Provisions on the Protection of the Geologic Environment of Mines《礦山地質環境保護規定》

Aspect A1: Emissions

The coal mining operation and activities of the Group inevitably generates different kinds of emissions. The Group's major emissions include coal dust, sewage and noise. The Group strives to minimise the emissions and takes practicable and possible measures to comply with the relevant laws and regulations relating to environment protection.

Air Emission

Coal dust is the main air emission of the Group's coal mining operations. The heavy metal elements contained in the coal dust is harmful to the health. Its explosive nature also poses a potential risk of fire and explosion in the mine site. Therefore, the Group has established and implemented strict policies and measures in dust control, with the aims to reduce the amount of dust generated in the vicinity of the mine site and the coal haul road in accordance with the Group's dust generation management plan.

During the Reporting Period, the Group's dust prevention measures including but not limited to:

I. *Construction of environmental facilities*

Built a storage facility that holds the non-combustible ingredients of coal and the ash trapped by equipment that is designed to reduce air pollution;

II. *The construction methodology of mine haulage roads*

Enhanced the roads in particular using carefully selected dust suppressing materials to reduce propensity for dust generation;

III. *Water sprinkler system*

Regularly spray treated waste water during various stages of the coal handling process and on the haulage mine roads;

IV. *Building and maintenance of dedicated facilities for dust reduction*

Built the special wire fence surrounding the coal stockpile in order to reduce wind speed and dust dispersion in the area;

V. *Transport coal in covered trucks*

Always apply temporary covers to control dust moving from the site to the area outside; and

VI. *Speed limits enforcement*

Set the speed limits for heavy machinery and light trucks during coal transportation.

Given the fugitive nature of coal dust, the Group is not able to have an exact measurement on the total emission of coal dust. Nevertheless, the Group appointed an independent qualified expert to measure the air quality in the mine site on a regular basis. Based on the latest environmental inspection report issued on September 2018, Sulfur Dioxide (SOx) and Total Suspended Particulate (TSP) emission met the requirement of the Discharge Standard for Coal Industry《煤炭工業污染物排放標準》, which indicated that the coal dust was well under control and has not caused any apparent deterioration in air quality of the mine site.

Apart from the coal dust, the Group also generated air emission from gaseous fuel consumption and vehicles. During the Reporting Period under review, the Group's emission of Sulphur Oxides (SOx), Nitrogen Oxide (NOx), and Particulate Matter (PM) are summarised in the table below:

Air Emissions	**2018 (in kg)**	2017 (in kg)	YoY Change (%)
Sulphur Oxides (SOx)	**3,323.81**	4,929.85	(32.58)%
Nitrogen Oxide (NOx)	**666,779.61**	998,197.05	(33.20)%
Particulate Matter (PM)	**3.51**	647.64	(99.46)%

Greenhouse Gas Emission

The carbon footprint arising from the Group's day-to-day operations is primarily from the use of purchased electricity. The amount of each greenhouse gas emission for the Reporting Period is summarised in the table below:

Emission Sources	**CO_2e Emission (2018) (in tonnes)**	CO_2e Emission (2017) (in tonnes)	YoY Change (%)
Scope 1 Direct Emission	**1,093.45**	1,315.74	(16.89)%
Scope 2 Indirect Emission	**11,455.88**	13,710.83	(16.45)%
Scope 3 Other Indirect Emission	**82.97**	245.26	(66.17)%
Total	**12,632.30**	15,271.83	(17.28)%

During the Reporting Period, the Group generated a total of 12,632.30 tonnes of carbon dioxide equivalent (tCO_2e) greenhouse gases (mainly carbon dioxide, methane and nitrous oxide), which was 17.28% less than 2017. The annual emission intensity in 2018 was 0.01 tCO_2e per tonne of coal produced (2017: 0.01 tCO_2e per tonne).

Since over 90% of greenhouse gas emission comes from purchased electricity under scope 2 indirect emission, the Group mitigates the greenhouse gas emission by means of saving the electricity. During the Reporting Period, the Group consumed less electricity and the greenhouse gas emission reduced 16.45% to 11,455.88 tonnes CO_2e.

Please refer to Aspect A2: Use of Resources below for further information on saving electricity.

Noise Emission

There are various sources of noise that are typically associated with the Group's coal mining operation, which includes dump trucks, large earth-moving equipments such as excavators and coal transportation trucks. Blasting activities, which cause ground vibration as well as overpressure, may be felt or heard by its closest neighboring communities on occasion.

The Group understands and acknowledges that noise and vibrations can impact the communities and takes constructive measures to mitigate the potential impacts. A noise management plan has been carried out according to the Group's assessment on sources and condition of noise and vibration regularly. The following policies have been implemented by the Group on noise control:

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

Waste Management

The wastes in respect to the Group's operation mainly consist of waste gangue (矸石), living waste and sludge. Waste gangue and sludge are hazardous waste that is harmful to human health.

During the Reporting Period, the Group has replaced the boiler with external purchased electricity as the power supply. Therefore, the Group will no longer generate boiler slag (鍋爐灰渣) which is hazardous to the environment.

During the Group's coal mining operations of the Group, waste disposal is minimal since most of them can be reused. The following table shows the treatment of the waste taken by the Group.

Waste	Waste processing treatment
Waste gangue	Either used in paving or sold externally
Living waste	Buried or burnt at the designated rubbish disposal area permitted by the local authorities
Sludge	Either used for green fertilisation or disposed after composting

In addition to solid waste, mining operation also generates a large amount of sewage. The sewage was generated from coal mining operation for living and production. After precipitation, filtering, sterilisation and other sewage treatment processes, living sewage and production sewage generated can be reused in the area such as sprinkling for dust reduction, irrigation or use in power plant.

Wastewater is discharged after it met the discharge standards according to the "Integrated Wastewater Discharge Standard"《污水綜合排放標準》stipulated by the Ministry of Environmental Protection of the PRC (中華人民共和國環境保護部).

Aspect A2: Use of Resources

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

Electricity

Due to high degree of automation and mechanisation, the Group has a high level of electricity consumption for coal mining operation. For that reason, electricity not only becomes one of the major operating costs of the Group, the stability of electricity supply is also crucial to the Group's daily operation. The high level of electricity consumption also comes to significant indirect emission of greenhouse gas as mentioned before.

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

The responsibilities of the Group management team including but not limited to the followings:

- Investigate corporate policies with respect to energy savings;
- Examine the efficiencies of energy supply and the cost/benefits of upgraded equipment;
- Set energy targets and objectives for promotion of corrective and preventive actions; and
- Regularly educate relevant departments of the Group on energy conservation.

The following are some of the initiatives adopted by the Group for stable electricity supply and electricity saving:

- In tunnel driving (巷道掘進), the reduction in ventilation resistance is taken into account to reduce the energy consumption in ventilation.
- Supporting methods with low ventilation resistance factors such as shotcrete-bolt supporting (錨噴支護) are adopted as much as possible.
- Priority is given to the machine and equipment with high energy efficiency.
- The Group's electrical substation will make use of voltage compensation to increase its power factor (功率因數).
- Heating is centralised to supply from power station to reduce waste in energy.
- Mine drainage is scheduled to avoid peak hours of electricity consumption to reduce the risk of operation suspension arising from electricity shortage.

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

During the Reporting Period, the Group has consumed 12.96 million kWh of electricity (2017: 15.50 million kWh), and its intensity was 10.80 kWh (2017: 13.14 kWh) per tonnes of coal produced.

Water

Water is another resource the Group consumes the most for coal mining operation. In Inner Mongolia, water is precious so the Group treasures water resource. A compressive water management solution is implemented to provide the guidance to the management, employees and contractors with regard to the use and re-use of water. Water saving and re-use of water are the Group's major directions regarding to the water resource.

For water saving, effective water-saving production methods and instruments were adopted to enhance water efficiency. Water quality is also under inspection to prepare for the proposed installation of water saving facility.

In addition, the Group makes use of pit water to reduce the usage of fresh water. After water treatment such as filtering and sterilisation, these pit water will be used in firefighting, spraying for dust reduction, irrigation and power station.

During the Reporting Period, the Group has consumed 154,000 tonnes of water (2017: 188,000 tonnes), and its intensity was 0.13 tonnes of water per tonnes of coal production (2017: 0.16 tonnes).

Aspect A3: The Environment and Natural Resources

Mining and surface subsidence

In general, coal mining operation may have adverse impacts on ecological environment. The Group adopts underground mining method (井工開採) to exploit the coal mine, which involves roadway development in the mine, that may alter the original geological structure of the mine and its surroundings. A large area of goaf (採空區) may be formed below the surface. Goaf will cause gradual surface subsidence that destroys the original landscape and vegetation, resulting in desertification and soil erosion.

For the Group's mine site in Inner Mongolia, due to the characteristic of the local terrain, difference in elevation and the circumstances of the projected surface subsidence, the surface subsidence takes a long time to form and the affected area is limited. Besides, barrier pillar (煤柱) will be retained during mining process to prevent the mine from the surface subsidence. During the Reporting Period, the Group does not find any apparent surface subsidence formed.

In response to the requirement of the local government, the Group has also performed greening in the managed mine area. The survival rate of the plant meets the government requirement. The Group will continue to communicate and collaborate with the government in regards to environmental issues.

Mining efficiency

As coal is a non-renewable resource in the world, the Group tries hard to reduce waste in coal resource. As a mining company, it is the Group's social responsibility to enhance the mining efficiency. The Group strictly follows the extract recovery rate requirement set out by the government. Any mining operations or activities which will reduce the extract recovery rate without adequate reason is prohibited. Disposal of coal is also forbidden and any offender will receive severe penalty.

9. Social Responsibility

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

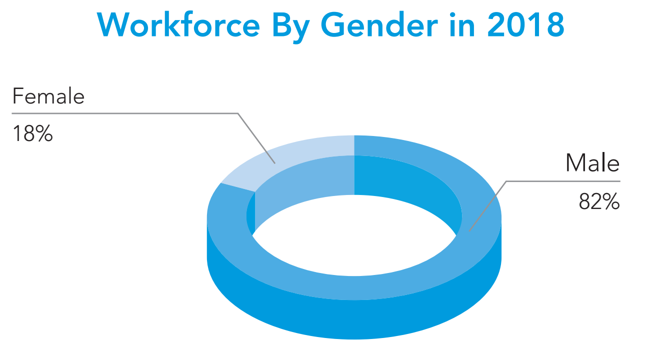
Aspect B1: Employment and Remuneration Policies

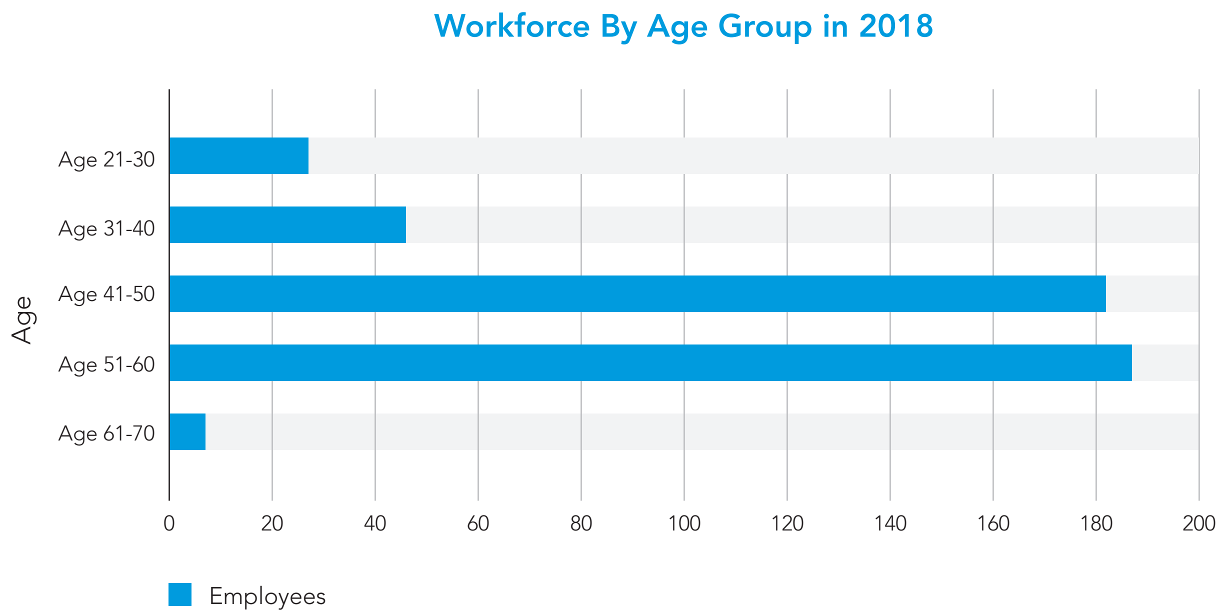
The Group has strictly complied with the Labor Law of the PRC and other relevant legislations. Based on these applicable law and regulation, the Group has set up policies and rules to guide and govern the human resource matters relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination and other benefits and welfare.

The Group's essential policies and procedures are also included in the staff handbook which will be reviewed and updated regularly. The Group discourages and disallows any behavior that violates the regulations under staff handbook. Offenders will receive warning, and the Group has the right to terminate employment contract with offenders for serious violations. During the Reporting Period, the Group did not find any significant violations of laws and regulation relating to human resources.

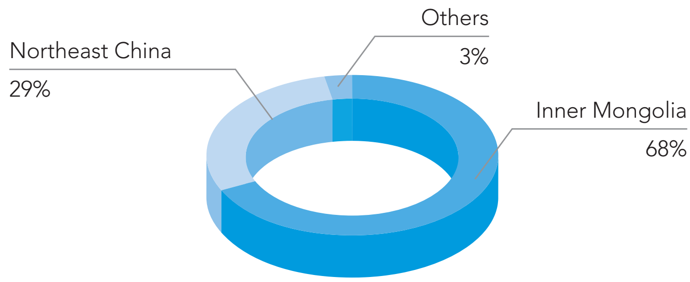
Workforce composition

At the end of the Reporting Period, the Group has 449 full-time employees. The decrease in total workforce is mainly because of the Company policy to save the cost through natural attrition. As a result, the staff turnover rate increased from 18.1% to 23.11% in 2018. The Group will continue to make an effort to retain its employees. The composition of the Group's workforce by gender and age group are shown as below:





Workforce By Geographical Regions in 2018



As a responsible corporate citizen, the Group actively searches for opportunities to improve its relationship with the local citizens. The Group has created job opportunities for the local community and has provided different level of job positions from miner to management level. The workforce consists of approximately 68% employees from Inner Mongolia in 2018, which increased significantly by approximately 36%.

Staffing

The Group is an equal opportunity employer and does not discriminate on the basis of personal characteristics, gender or age. There are recruitment policies in place formulating the recruitment process and ensuring its equality and free from discrimination. Employment contract will be signed for every employment to protect both the Group and the employee. Before signing the employment contract, the employment contract and staff handbook will be fully explained to employee so that they can understand their rights, responsibilities, expected conducts and behaviors from the Company.

The Group strictly prohibits the employment of children or forced labor and sets out the policies in the labor code to eradicate child labor, juvenile workers and forced labor.

Remuneration

As a responsible employer, employees of the Group are remunerated at a competitive level and are rewarded according to their performance and experience. The promotion and remuneration of the Group's employees are subject to regular review. The remuneration packages comprise of monetary remuneration, performance bonus and medical benefits. Given the high risk of the job nature, the mining workers engaged in specialised operations are also compensated with industrial injury insurance, medical insurance and serious illness insurance in excess of legal requirement.

Aspect B2: Health and Safety

Workplace safety is always the prime concern for the Group, workers and the public. Even though it is not common to occur, the incidents about the safety of the mine are always severe accompanied with deaths and injuries. The Group aims to achieve zero work-related fatalities, injuries and accidents in compliance with all applicable rules and regulations regarding to Occupational Safety and Health (OSH).

To reduce the hazards of the potential mining incidents, the Group puts focus on ventilation, preventions of gas explosions, coal dusts and fires of the mine ventilation and three preventions' (一通三防). With consultation to and involvement from employees, the Group has developed work safety guidelines, employee safety procedures and precautions. The safety policies, procedure and measures will be reviewed annually and improve accordingly to ensure their effectiveness and timeliness.

In the Group, everyone is accountable to achieve the Group's goal in workplace safety and health. The Group has allocated a person at top management level a special responsibility to ensure the proper implementation of the health and safety management system. The Group has assigned safety officer responsible for providing a safe and healthy working environment and to ensure that the work environment is in line with or higher than requirements of relevant laws. Every employee is free to report or complain for any unsafe or unhealthy conditions or work practices to which the Group will respond after investigation.

The Group has committed tremendous efforts to workplace safety. Enhancing workers' safe and healthy work awareness was deemed to be the key factor to occupational safety and health. Therefore, the Group has arranged various training courses to raise their safety awareness. For more details, please refer to section 'Aspect B3: Development and Training' below.

In case there are safety incidents of the mine, in-time rescue is crucial to reduce casualty. A mine rescue team has been set up in response to potential safety incidents. To reduce the hazard of serious safety incident, the group will arrange rescue, fire and evacuation drills on a regular basis as a mean to strengthen the workers' abilities to respond to emergencies. All mine workers are required to wear protective equipment and enter to the mine in a team.

"Ventilation and Three Preventions" in Coal Mining Business

The Group has implemented "Ventilation and Three Preventions" which aims to bring a safer working environment. The Group has taken various key measures in reducing the safety risk and some are listed as follows:

Areas	Key Measures
Ventilation	• Gas density, hazardous gas density and ventilation facilities were checked and recorded by the qualified and experienced technician according to the preset standard and regulation in regular time, route and place. • Main ventilator for coal mine must be switched on round the clock. Chief engineer's approval is required for suspension of ventilator. • Mine worker can work only when there is adequate ventilation condition. Otherwise, mine workers are required to evacuate from the mine.
Gas explosions prevention	• Mine worker must bring gas monitoring device to the mine. Any onsite personnel should evacuate immediately when the hazardous gas density exceeds the limit. • Shaft-drifts in abandoned mining area and shaft-drifts with bad ventilation condition will be closed timely. • Registration is required for blind shaft-drifts.
Coal dust prevention	• Dust suppression system by water spray was established with adequate and clean water. Water pine has been installed in the shaft-drifts near the stope face. • All underground workers are required to wear coal dust masks and are strictly inspected before entered into the mine. • Dust suppression must be conducted by water spray in shaft-drifts regularly. • Respiratory and total cost dust density in operation area will be examined monthly and bi-weekly, respectively.
Fire prevention	• Firefighting system with nitrogen must be installed in coal mines before coal production began. • Prediction of spontaneous combustion are performed weekly to identify the potential risk of combustion. • The goaf (採空區) will be build up a flame proof construction within 45 days and closed permanently to prevent the occurrence of spontaneous combustion and fires.

Mine rescue team

The mine rescue team was set up in 2017. The rescue team report directly to the general manager and is instructed by the chief engineer. All members are strictly selected, well trained and equipped with the newest rescuing equipment.

To ensure readiness to fight safety incident of the mine in any time, the mine rescue team receives training and maintains rescue equipment on a regular basis.

With adequate authorisation and clearly defined job duty, the team can react promptly to the safety incidents and rescue following the rescuing guideline. The mine rescue team greatly strengthen the rescuing capacity of the Company and now become an indispensable force in fighting safety incident of the mine.

In addition to workplace safety, workers' occupational health is also the issue of the Group's concern. The most direct and obvious occupational health issue for workers is their exposure to hazardous materials including coal dust and hazardous gas such as methane and carbon dioxide. The Group adopts plenty of measures to protect and improve occupational health, including, but not limited, to the followings:

- Provide necessary protective equipment to the employees such as dust masks, and self-contained self-rescue devices before entering the mine;
- Organise work schedule, such as job rotation and segregation by distance or time to minimise or reduce hazardous exposures;
- Provide hygiene facilities to reduce the hazardous exposure;
- Adopt automisation to reduce work that require repeated body movement; and
- Arrange body checks for workers.

The table set below shows the work-related fatalities and injury statistic in the Reporting Period:

Description	
Number of work-related fatalities	0
Number of work-related injuries	3
Lost days due to work-related accidents and disease (occupational)	430 days

During the Reporting Period, there are three work-related injuries that hurt two mining workers' and one technician's limbs. After medical diagnosis, two workers have been hospitalised and all three workers recuperated after the accidents as advised by the doctors.

The major laws and regulations in respect of occupational health and safeties applicable for mineral industries in the PRC are listed below:

- The Production Safety Law of the PRC《中華人民共和國安全生產法》
- The Mining Safety Law of the PRC《中華人民共和國礦山安全法》

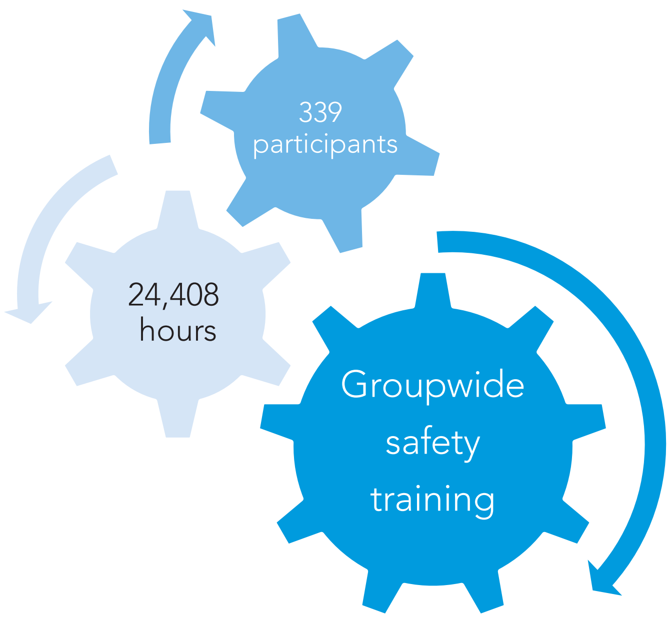
During the Reporting Period, the Group is not aware of any material non-compliance with the above-mentioned relevant laws and regulations that have a significant impact on the Group relating to providing a safe working environment and protecting employees from occupational hazards.

Aspect B3: Development and Training

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

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

As occupational safety is the core concern of the Group, most of the training programme is designed to raise awareness of workers on occupational safety and health. In 2018, the Group has conducted group-wide safety training on the hazards of employee jobs and how to do their jobs safely for all employees in the PRC.



The underground coal mine safety management certification training program is developed to provide the skills and knowledge required by coal mine workers to respond safely and appropriately to a fire or other emergency incident such as a fire that occurs at their work area underground. In 2018, the Group has also provided specialised safety training for 10 safety management staffs in total of 80 hours.

In 2018, 74 mining workers engaged in specialised operations have received certified safety training of 6,660 hours in total. 64 workers have passed the examination and become qualified workers. They will receive certificate after the training which is useful for their career development in mining safety.

In addition, the Group offers new miner training program for new employees to better understand their roles as miners, the program is delivered by safety supervision department for necessary safety knowledge and skills. All new employees are required to pass an examination after training to qualify for joining the Group.

Aspect B4: Labor Standard

The vast majority of staff employed by the Group is located in the PRC. The Group has established and implemented a staff handbook which contains the policies relating to relevant labor laws, regulations and industry practices, covering areas such as compensation and dismissal, promotion, working hours, rest periods and other benefits and welfare.

With the aim of ensuring fair and equal protection for all employees, the prohibition of child labor, forced labor and anti-corruption practices are also set in accordance with all relevant laws and regulations that applied in the PRC.

The Group has strictly complied with all the rules throughout the Reporting Period and did not aware of any significant violation of human resources-related laws and regulations.

10. Operating Policies

Aspect B5: Supply Chain Management

The Group established supplier management system to ensure operations is fully complied with the PRC laws and regulations in relation to social and environment aspects in the most sustainable manner. The Group's supplier management system is responsible for designing, planning, implementing, controlling and monitoring the logistic activities with the goal of building a sustainable management culture.

The Group has continued to minimise the usage of water and energy while maintaining a high quality of mining coal, which in turn lead to less pollution, defects and more production. To ensure the minimisation of air pollution in the transportation process, the Group's transportation teams use dust suppressing substances and apply temporary cover for dust reduction during both inbound and outbound orders.

Fair and Open Competition

The Group promotes fair and open competition that aims to develop long-term relationships with its suppliers based on mutual trust. The Group has implemented the procurement procedures to ensure the fairness and openness of the procurement process. For example, quotations from more than one vendor are required to prompt the openness of the competition.

Safe and environmental friendly procurement

For the sake of safety and being environmental friendly for the procurement, the Group requires the products purchased with mining products safety sign, work safety licenses and meet the environmental requirements.

Aspect B6: Product Responsibility

The major product of the Group's coal mine in Mongolia is lignite. The higher heating value of lignite generates more energy and produces fewer pollutants during burning. The Group strives to raise the heating value by controlling its moisture and ask. The Group has joined 通遼市煤炭行業管理協會 that has set up a requirement to ensure the coal quality, especially the heating value, to meet the customers requirement.

To minimise environmental harm at every stage of its mining operation, the Group is in conformity with all the relevant PRC standards and regulations, and fully devoted to regularly monitor and measure its activities to ensure they are acceptable according to national standards. During the Reporting Period, the Group was not aware of any coal production related policies and regulation.

In 2018, the production volume was approximately 1.20 million tonnes (2017: 1.18 million tonnes).

Aspect B7: Anti-corruption

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

During the Reporting Period, no litigations regarding bribery have been instituted against the Group and the staff.

Aspect B8: Community Investment

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

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

11. Sustainability

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

12. Corporate Governance

All management level has the responsibilities to maintain good corporate governance practices. Meetings are held regularly and once the management or the staffs notice any improvement on the corporate practices, the relevant operating practices will be reviewed.

DIRECTORS' REPORT

The Directors are pleased to present their report and the audited consolidated financial statements of the Group for the financial year ended 31 December 2018.

Principal Activities

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

Details of the segment information are set out in Note 10 to the consolidated financial statements.

Business Review

A fair review of the business of the Group as well as discussion and analysis of the Group's performance during 2018 and the material factors underlying its financial performance are set out in the section headed "Management Discussion and Analysis" on pages 9 to 16 of this annual report.

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

Results and Dividend

The results of the Group for 2018 are set out in the consolidated statement of profit or loss and consolidated statement of profit and loss and other comprehensive income on pages 71 to 73.

The Directors do not recommend the payment of a final dividend for 2018 (2017: Nil).

Share Capital

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

Reserves

Details of the movements in the reserves of the Group and the Company during 2018 are set out in consolidated statement of changes in equity and Note 36 to the consolidated financial statements respectively.

Distributable Reserves

As at 31 December 2018, the Company had reserves available for distribution, calculated in accordance with the provision of the Cayman Islands Companies Law, amounting to approximately HK$92,711,000. The share premium account of the Company of approximately HK$96,935,000 as at 31 December 2018 is distributable to the Shareholders provided that immediately following the date on which the dividend proposed to be distributed, the Company will be in a position to pay off its debts as and when they fall due in the ordinary course of business. The share premium account may also be distributed in the form of fully paid bonus shares.

Property, Plant and Equipment

Details of the movements in the property, plant and equipment of the Group are set out in Note 19 to the consolidated financial statements.

Directors

The Directors during 2018 and up to the date of this annual report were:

Executive Directors

Mr. Ng Ying Kit
Ms. Huo Lijie
Mr. Ren Hang *(appointed on 23 July 2018)*
Mr. Xu Bin *(passed away on 12 June 2018)*
Mr. Zhang Fusheng *(resigned on 23 July 2018)*

INEDs

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

In accordance with articles 83(3) of the Amended and Restated Memorandum and Articles, Mr. Ren Hang appointed as an executive Director, will retire from office at the forthcoming annual general meeting and, being eligible, will offer himself for re-election.

In accordance with articles 84(1) and 84(2) of the Amended and Restated Memorandum and Articles, Mr. Ng Ying Kit and Mr. Huang Shao Ru will retire from office by rotation at the forthcoming annual general meeting and, being eligible, will offer themselves for re-election.

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

Directors' Service Contracts

Executive Directors

All executive Directors entered into service agreements with the Company. Mr. Ng Ying Kit, Ms. Huo Lijie and Mr. Ren Hang entered into a service agreement with the Company on 5 February 2015, 11 January 2016 and 23 July 2018, respectively. The service contracts of the three executive Directors shall continue thereafter unless and until terminated by other party giving not less than three months' notice in writing to the other party.

INEDs

Mr. Kwok Chi Shing, Mr. Huang Shao Ru and Mr. Chang Xuejun entered into respective appointment letters with the Company for a term of three years commencing on 15 June 2018, 23 June 2017 and 15 June 2018, respectively.

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

Confirmation of Independence of INEDs

The Company has received from each of the INEDs, who acted in such capacities during 2018, an annual confirmation of independence as required under 3.13 of the Listing Rules. The Company considered that each of its INEDs as at the date of this annual report to be independent pursuant to the criteria set out in the Listing Rules.

Biographical Details of Directors and Senior Management

The profiles of the Directors and senior management are set out on pages 17 to 19 of this annual report.

Five-Year Financial Summary

A summary of the results of the Group for the last five financial years and of its assets and liabilities as at the end of the last five financial years is set out on pages 6 to 8 of this annual report.

Directors' Material Interests in Transactions, Arrangements or Contracts

Save as disclosed in the paragraph headed "Connected transactions and continuing connected transactions" below, no other transactions, arrangements or contracts of significance to which the Company or its subsidiaries was a party subsisted at the end of 2018 or at any time during 2018 in which any Director, whether directly or indirectly, had a material interest.

Directors' Interest in Competing Business

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

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

As at 31 December 2018, the interests and short positions of the Directors and the chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including any interests and short positions which they have taken or deemed to have taken under such provisions of the SFO), or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code set out in Appendix 10 to the Listing Rules, to be notified to the Company and the Stock Exchange were as follows:

	Capacity and nature of interest in Shares			Capacity and nature of interest in underlying Shares pursuant to share options				
Name	Personal Interests	Corporate Interests	Total Interests	Personal Interests	Family Interests	Total Interests	Aggregate Interests	Approximate percentage of total issued share capital of the Company as at 31 December 2018
Mr. Ng Ying Kit	–	–	–	17,250,000	–	17,250,000	17,250,000	1.15%
Ms. Huo Lijie	–	–	–	2,250,000	–	2,250,000	2,250,000	0.15%
Mr. Ren Hang	–	–	–	15,000,000	–	15,000,000	15,000,000	1.00%
Mr. Kwok Chi Shing	–	–	–	225,000	–	225,000	225,000	0.01%
Mr. Huang Shao Ru	–	–	–	225,000	–	225,000	225,000	0.01%

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

Save as disclosed above, as at 31 December 2018, none of the Directors and the chief executive of the Company had any interests or short positions in the Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO), which would have to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests or short positions which they have taken or deemed to have taken under such provisions of the SFO) or which were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein, or which were required, pursuant to the Model Code, to be notified to the Company and the Stock Exchange.

Substantial Shareholders

As at 31 December 2018, so far as is known to the Directors or the chief executive of the Company based on the register maintained by the Company pursuant to Section 336 of the SFO, the following persons (other than the Directors or the chief executive of the Company) had, or were deemed to have, interests or short positions in the Shares or underlying Shares which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company pursuant to Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Name	Capacity/ Nature of interest	Number of Shares or underlying Shares	Approximate percentage of the total issued share capital of the Company as at 31 December 2018
Liu Chang Deng	Beneficial owner	156,154,315	10.39%

Save as disclosed above, as at 31 December 2018, the Directors and the chief executive of the Company were not aware of any other person (other than Directors and the chief executive of the Company) who had, or was deemed to have, interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO, or which were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

Share Option Scheme

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

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

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

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

On 27 July 2018 (the "**Third Date of Grant**"), the Company granted certain share options comprising 150,000,000 underlying Shares, which represented approximately 9.98% of the total issued share capital of the Company as at that date, to certain Directors, employees and other eligible participants. Such share options were vested immediately and exercisable for a ten-year period from 27 July 2018 to 26 July 2028 (both days inclusive). The exercise price of the share options granted HK$0.51 per Share, which was the highest of (i) the closing price of HK$0.51 per Share on the Third Date of Grant; (ii) the average closing price of HK$0.50 per Share as stated in the daily quotation sheets issued by the Stock Exchange for the five business days immediately preceding the Third Date of Grant; and (iii) the nominal value of HK$0.01 per Share as at the Third Date of Grant.

Share Option Scheme (Continued)

Particulars of the share options under the 2009 Scheme outstanding as at 31 December 2018 were as follows:

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

			Number of underlying Shares comprised in share options						
Name of Directors	Date of Grant	Exercisable Period	Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Transferred during the year (note)	Balance as at 31 December 2018	Exercise Price Per Share (HK$)
Executive Directors									
Mr. Xu Bin	28 July 2015	28 July 2015 to 27 July 2025	4,500,000	–	–	–	(4,500,000)	–	0.530
Mr. Ng Ying Kit	30 April 2015	30 April 2015 to 29 April 2025	2,250,000	–	–	–	–	2,250,000	0.710
	27 July 2018	27 July 2018 to 26 July 2028	–	15,000,000	–	–	–	15,000,000	0.510
Ms. Huo Lijie	28 July 2015	28 July 2015 to 27 July 2025	2,250,000	–	–	–	–	2,250,000	0.530
Mr. Ren Hang	27 July 2018	27 July 2018 to 26 July 2028	–	15,000,000	–	–	–	15,000,000	0.510
			9,000,000	30,000,000	–	–	(4,500,000)	34,500,000	
Independent Non-Executive Directors									
Mr. Kwok Chi Shing	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	–	225,000	0.710
Mr. Huang Shao Ru	30 April 2015	30 April 2015 to 29 April 2025	225,000	–	–	–	–	225,000	0.710
			450,000	–	–	–	–	450,000	
Total			9,450,000	30,000,000	–	–	(4,500,000)	34,950,000	

Share Option Scheme (Continued)

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

	Date of Grant	Exercisable Period	Number of underlying Shares comprised in share options: Balance as at 1 January 2018	Granted during the year	Exercised during the year	Cancelled/ Lapsed during the year	Transferred during the year (note)	Balance as at 31 December 2018	Exercise Price Per Share (HK$)
Employees and Eligible Participants	30 April 2015	30 April 2015 to 29 April 2025	450,000	–	–	–	–	450,000	0.710
	28 July 2015	28 July 2015 to 27 July 2025	–	–	–	–	4,500,000	4,500,000	0.530
	27 July 2018	27 July 2018 to 26 July 2028	–	120,000,000	–	–	–	120,000,000	0.510
			450,000	120,000,000	–	–	4,500,000	124,950,000	

Note: Mr. Xu Bin, the Chairman and executive Director of the Company, passed away on 12 June 2018 and the number of share options held by him was transferred from the category of "Directors". Pursuant to the terms of the 2009 Scheme, the legal personal representative of Mr. Xu Bin may exercise the share options within the period of 12 months following the date of his death.

The maximum number of Shares to be issued upon exercise of all share options to be granted under the 2009 Scheme was refreshed to 150,347,716 shares (the "**Scheme Mandate**") on 29 June 2018, being 10% of the total issued share capital of the Company as at the date of passing of an ordinary resolution by the Shareholders to approve the refreshment of the Scheme Mandate. On 27 July 2018, the Company has granted 150,000,000 share options to certain eligible participants. As at 31 December 2018, the number of Shares to be issued upon the exercise of the outstanding options under the 2009 Scheme was 347,716 Shares, representing 0.02% of the total issued share capital of the Company as at 31 December 2018.

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

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

The fair value of the share options comprising 150,000,000 underlying Shares granted on the Third Date of Grant of approximately HK$42,309,000 was valued by using the Binominal pricing model. Values are estimated based on the risk-free rate 2.18% per annum by reference to the yield rate of the Hong Kong government bills and bonds with similar duration, a ten-year period historical volatility 65.00%, assuming a dividend yield of Nil and an expected option life of 10 years.

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

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

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

Connected Transactions and Continuing Connected Transactions

During 2018, the Group had the following connected transactions, details of which have been disclosed in compliance with the requirements in accordance with the Listing Rules:

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

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

Pursuant to the License Agreement, Mr. Xu, as the licensor of the Proprietary Technology, shall grant the Group a non-exclusive right to use the Proprietary Technology in the PRC to produce up to 500,000 tonnes of upgraded coal for each calendar year during the terms of the License Agreement and the Company shall pay a nominal license fee of HK$1.00 to Mr. Xu. The MOU does not constitute any legally-binding commitment in respect of the Potential Acquisition. Unless terminated earlier, the License Agreement shall be valid until 31 December 2016 (the "**License Agreement Expiry Date**") and Mr. Xu, Gouden Kolen and the Company have mutually agreed in writing to extend the Expiry Date of the License Agreement to 31 December 2017. On 29 December 2017, the License Agreement Expiry Date was further extended to 31 December 2018, or such later date as may be agreed by Mr. Xu, Gouden Kolen and the Company. No further extension have been made by the Company as at 31 December 2018 and the License Agreement have been terminated accordingly.

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

Connected Transactions and Continuing Connected Transactions (Continued)

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

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

The 2018 annual cap for the (1) leasing of a station platform, and (2) provision of coal loading and unloading services at the designated station platform under the Logistics Agreement for the Year was RMB13,000,000 (approximately HK$15,382,000) and there was no any amount paid by Inner Mongolia Jinyuanli during 2018.

(c) On 30 November 2018, (i) Wealthy Tone Worldwide Limited and Shanghai Wealthy, each being an indirect wholly-owned subsidiary of the Company as vendors entered into the sale and purchase agreement with Shenzhen Yuhai as purchaser to sell the entire equity interest of Xilinhaoto Guochuan at a consideration of RMB8 million (approximately HK$9 million) and (ii) Wealth Business Investment Limited, an indirect wholly-owned subsidiary of the Company as vendor entered into the sale and purchase agreement with Shenzhun Yuhai as purchaser to sell the entire equity interest of Beijing Guochuan New Energy Development Company Limited at a consideration of RMB1 (approximately HK$1) ("**Disposals**"). The purchaser of the Disposals is owned as to 90% by Mr. Xu Changzheng and as to 10% by Mr. Ye Shaofeng. Mr. Xu Changzheng is a cousin of the Mr. Xu Bin, who was Director in the past 12-month period immediately before the transaction. Accordingly, the Purchaser is a deemed connected person of the Company under Rule 14A.21(1)(a) of the Listing Rules. As such the Disposals also constitute connected transactions for the Company. As the applicable highest percentage ratio calculated pursuant to Rule 14.07 of the Listing Rules in respect of Disposals exceeds 5% but is less than 25% and the total consideration of the Disposals is less than HK$10,000,000, the Disposals are subject to the reporting and announcement requirements, but exempted from shareholders' approval requirement under Chapter 14A of the Listing Rules. Please refer to the announcement of the Company dated 30 November 2018 for details.

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

* *For identification purpose only*

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

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

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

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

Management Contracts

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during 2018.

Equity-linked Agreements

Saved for the share option scheme described above, the Group has not entered into any equity-linked agreements during 2018.

Convertible Securities, Options, Warrants or Other Similar Rights

Apart from the share options described above, the Company had no other outstanding convertible securities, options, warrants or other similar rights as at 31 December 2018. There had been no exercise of any convertible securities, options, warrants or other similar rights during 2018.

Fundraising Activities

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

Use of Net Proceeds from the Placing

The total net proceeds raised from the Placing had been used as at 31 December 2018 are as follows:

		Net Proceeds HK$ million	Use of Proceeds HK$ million	Unused Amount HK$ million
(i)	Repayment of the overdue construction payables	45.0	(39.0)	6.0
(ii)	Development of the Coal Upgrading Business	25.0	(7.6)	17.4
(iii)	Repayment of the loan due to a non-controlling shareholder	8.0	(8.0)	–
(iv)	General working capital of the Company	28.8	(24.5)	4.3
Total		106.8	(79.1)	27.7

Major Customers and Suppliers

Information in respect of the Group's sales attributable to the major customers and suppliers respectively during 2018 are as follows:

	Percentage of the Group's total
	Sales 2018
The largest customer	17%
Five largest customers in aggregate	50%

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

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

Pre-emptive Rights

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

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

During 2018, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

Permitted Indemnity Provision

Pursuant to the Amended and Restated Memorandum and Articles, every Director or other officers of the Company shall be indemnified out of the assets of the Company against all losses or liabilities which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto, and no Director or other officers shall be liable for any loss, damages or misfortune which may happen to be incurred by the Company in the execution of the duties of his/her office or in relation thereto provided that the indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the said persons. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Company during 2018.

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

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of the Directors since the date of the Company's 2018 interim report are set out below:

(1) On 12 June 2018, Mr. Xu Bin, the Chairman and executive Director of the Company, passed away and ceased to be executive Director of the Company and various subsidiary directorship of the Company.

(2) On 23 July 2018, Mr. Ren Hang was appointed as an executive Director.

(3) On 23 July 2018, Mr. Zhang Fusheng resigned as an executive Director, an authorised representative of the Company under the Listing Rules and an authorised representative of the Company under the Companies Ordinance.

(4) On 23 July 2018, Mr. Ng Ying Kit was appointed as a member of each of the Nomination Committee and the Remuneration Committee.

(5) A one-off performance bonus for 2018 of HK$240,000 was approved to be given to Mr. Ng Ying Kit on 31 December 2018.

Employees and Retirement Schemes

The Group participates in several defined contribution retirement schemes which cover the Group's eligible employees in the PRC, and a Mandatory Provident Fund Scheme for the employees in Hong Kong. Particulars of these retirement schemes are set out in note 14 to the consolidated financial statements.

Relationships with Employees, Customers and Suppliers

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

Environmental Policies and Performance

As a responsible corporation, the Company is committed to protecting the environment in the areas where we operate. To ensure our business development and sustainability, the Company endeavors to comply with the laws and regulations regarding environmental protection and to adopt effective measures to achieve efficient use of resources, energy saving and waste reduction. Details of the Group's environmental policies and performance are set out in the section headed "Environmental, Social and Governance Report" on pages 29 to 50 of this annual report.

Sufficiency of Public Float

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

Independent Auditor

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

The consolidated financial statements for the year ended 31 December 2018 have been audited by BDO Limited who will retire and being eligible, will offer themselves for re-appointment at the forthcoming annual general meeting of the Company. A resolution for the re-appointment of BDO Limited as the independent auditor of the Company will be proposed as the forthcoming annual general meeting of the Company.

By order of the Board

Ng Ying Kit
Executive Director

Hong Kong, 29 March 2019

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

Qualified Opinion

We have audited the consolidated financial statements of Grand Ocean Advanced Resources Company Limited (the "**Company**") and its subsidiaries (together the "**Group**") set out on pages 71 to 160, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, except for the possible effects of the matters described in the "Basis for Qualified Opinion" section of our report, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 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 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 Qualified Opinion

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

As disclosed in notes 19(d) and 21 to the consolidated financial statements, impairment losses on the property, plant and equipment, intangible asset and related tax of approximately HK$10,570,000, HK$2,477,000 and HK$2,356,000 were recognised for the year ended 31 December 2017 in respect of the coal cash generating unit ("**Coal CGU**").

In our audit of the Group's consolidated financial statements for the year ended 31 December 2017, we were unable to perform audit procedures to satisfy ourselves that the impairment losses recognised on property, plant and equipment, intangible asset and related tax as included in the income tax expenses reflected in the consolidated statement of profit or loss for the year ended 31 December 2016 were properly accounted for which may affect the carrying amounts of the property, plant and equipment, intangible asset and deferred tax assets as at 31 December 2016. Together with other audit scope limitation, we disclaimed our audit opinion on the 2017 consolidated financial statements. Any adjustments to these carrying amounts as at 31 December 2016 would have consequential impacts on the amounts of impairment losses on property, plant and equipment, intangible asset and related income tax as recognised on the consolidated statement of profit or loss for the year ended 31 December 2017. As a result, we were unable to determine whether the amount of impairment losses on property, plant and equipment, intangible asset and related tax recognised in 2017 are free from material misstatements. Our audit opinion on the consolidated financial statements for the year ended 31 December 2018 was modified because of the possible effect of this matter on the comparability of the related current year figures and the corresponding figures in the consolidated statement of profit or loss.

Basis for Qualified Opinion (Continued)

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

As disclosed in note 19(c) to the consolidated financial statements, the Group had property, plant and equipment, including plant and machinery and construction in progress of approximately HK$1,904,000 and HK$43,320,000 and deposits under non-current assets of approximately HK$918,000, for the coal upgrading plant at Xilinhaote City, Inner Mongolia, PRC as at 31 December 2017. These assets belonged to the coal upgrading cash generating unit (the "**Coal Upgrading CGU**") for impairment assessment purpose. An impairment loss on property,plant and equipment of the Coal Upgrading CGU of approximately HK$107,847,000 was recognised in the consolidated statement of profit or loss for the financial year ended 31 December 2017. As further explained in note 19(c), the Coal Upgrading CGU was held by two subsidiaries of the Company and those subsidiaries were disposed of during the year ended 31 December 2018. An impairment loss of HK$8,486,000 on the Coal Upgrading CGU and a gain on disposal of subsidiaries of HK$20,595,000 were recognised in the consolidated profit or loss for the year.

During the course of our audit in respect of the year ended 31 December 2017, we sought to perform audit procedures to satisfy ourselves that the recoverable amounts of the plant and machinery, construction in progress and deposits under non-current assets of approximately HK$1,904,000, HK$43,320,000 and HK$918,000, respectively of the Coal Upgrading CGU had been properly determined and whether the impairment losses on property, plant and equipment of HK$107,847,000 attributable to the Coal Upgrading CGU and the corresponding movements in the consolidated statement of cash flows for the year ended 31 December 2017 were properly stated. However, the scope of our audit was limited as disclosed in the auditor's report for the year ended 31 December 2017. Together with other audit scope limitation, we disclaimed our audit opinion on the consolidated financial statements for the year ended 31 December 2017.

The scope limitation mentioned above remained unresolved in our audit of the consolidated financial statements for the year ended 31 December 2018. Any adjustments to the recoverable amounts of the assets included in the Coal Upgrading CGU as at 31 December 2017 (and the impairment losses thereon) would have consequential impacts on the carrying amounts of these assets as at 1 January 2018. As a result, we are unable to determine whether the amount of impairment losses recognised for the current year and the gain on disposal of subsidiaries for the year are free from material misstatements. Our audit opinion on the consolidated financial statements for the year ended 31 December 2018 was also modified because of the possible effect of this matter on the comparability of the related current year figures and the corresponding figures in the consolidated financial statements.

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 qualified 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. In addition to the matters described in the "Basis for Qualified Opinion" section, we have determined the matters described below to be the key audit matters to be communicated in our report.

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

(Refer to Notes 19 and 21 to the consolidated financial statements and the Group's critical judgements and key estimates in relation to impairment loss on property, plant and equipment and impairment loss on intangible asset set in Notes 6(b)&(e) to the consolidated financial statements)

The Group had property, plant and equipment and intangible asset of HK$131.1 million and HK$31.7 million respectively as at 31 December 2018.

Management has performed an impairment assessment in accordance with its accounting policies which complies with Hong Kong Accounting Standard 36 "Impairment of Assets". Recoverable amounts of Coal CGU are determined based on higher of its fair value less costs of disposal and its value-in-use (the "**Assessments**"). Based on the Assessments, no impairment loss need to be made for the year ended 31 December 2018. The Assessments involved exercise of significant judgements and key assumptions made by management concerning the estimated future cash flows. We have identified the impairment assessment of property, plant and equipment and intangible asset for the Coal CGU as a key audit matter because of its significance to the consolidated financial statements and the Assessments involved significant management judgements and estimation with respect to the discount rate and the underlying cash flows.

Our response:

Our procedures in relation to management's impairment assessment included, but not limited to, the following procedures:

- Discussed with senior management about the cash flow projection used in the Assessments and market conditions and difficulties to be encountered in the forecast period and the related adjustments reflected in the forecast;

- Evaluating the reasonableness of the key assumptions used in the Assessments;

- Assessing the appropriateness of the Assessments, and compared the methodologies used to our interpretation of the requirements of the relevant accounting standards; and

- Evaluating the independent external valuer's competence, capabilities and objectivity.

Other Information in the Annual Report

The directors of the Company are responsible for the other information. The other information comprises the information included in the Company's annual report, but does not include the consolidated financial statements and our auditor's report thereon. Prior to the date of this auditor's report, we have obtained Management Discussion and Analysis but have not obtained the remaining other information included in the annual report (the "**Remaining Other Information**"), which is expected to be made available to us after that date.

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

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

When we read the Remaining Other Information, if we conclude there is a material misstatement therein, we are required to communicate that matter to the directors and take appropriate action considering our legal rights and obligations.

Directors' Responsibilities for the Consolidated Financial Statements

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

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

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

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

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

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

As part of an audit in accordance with HKSAs, we exercise professional 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.

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

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

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

Auditor's Responsibilities for the Audit of the Consolidated Financial Statements (Continued)

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

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

From the matters communicated with the directors, 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.

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

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated and represented)
Continuing operations			
Revenue	8	**194,109**	111,842
Cost of sales		**(120,576)**	(96,119)
Gross profit		**73,533**	15,723
Other income	9	**538**	2,658
Selling and distribution expenses		**(6,375)**	(5,608)
Administrative expenses		**(53,876)**	(48,502)
Impairment loss on property, plant and equipment		**–**	(10,569)
Impairment loss on intangible asset		**–**	(2,477)
Impairment loss on trade and other receivables		**(622)**	–
Other operating expenses		**(42,842)**	–
Loss from operations		**(29,644)**	(48,775)
Finance costs	11	**(717)**	(715)
Loss before tax		**(30,361)**	(49,490)
Income tax credit/(expense)	12	**17,267**	(2,415)
Loss for the year from continuing operations		**(13,094)**	(51,905)
Discontinued operation			
Profit/(loss) for the year from discontinued operation	16	**7,758**	(108,268)
Loss for the year	13	**(5,336)**	(160,173)
Attributable to:			
Owners of the Company			
Loss from continuing operations		**(27,018)**	(36,585)
Profit/(loss) from discontinued operation	16	**8,085**	(107,019)
Loss attributable to owners of the Company		**(18,933)**	(143,604)
Non-controlling interests			
Profit/(loss) from continuing operations		**13,924**	(15,320)
Loss from discontinued operation	16	**(327)**	(1,249)
Profit/(loss) attributable to non-controlling interests		**13,597**	(16,569)
Loss for the year		**(5,336)**	(160,173)

For the year ended 31 December 2018

	Note	**2018 HK cents**	2017 HK cents (Restated)
Loss per share			
From continuing operations and discontinued operation			
– basic	18(a)	**(1.26)**	(12.47)
– diluted	18(a)	**(1.26)**	(12.47)
From continuing operations			
– basic	18(b)	**(1.80)**	(3.18)
– diluted	18(b)	**(1.80)**	(3.18)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000 (Restated and represented)
Loss for the year		**(5,336)**	(160,173)
Other comprehensive income after tax:			
Item that may be reclassified to profit or loss:			
Exchange differences on translating foreign operations		**(4,490)**	9,471
Exchange differences reclassified to profit or loss on disposal of foreign operations	37(a)	**6,440**	–
Other comprehensive income for the year, net of tax		**1,950**	9,471
Total comprehensive income for the year		**(3,386)**	(150,702)
Attributable to:			
Owners of the Company		**(14,874)**	(136,907)
Non-controlling interests		**11,488**	(13,795)
		(3,386)	(150,702)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Note	31 December 2018 HK$'000	31 December 2017 HK$'000 (Restated)	1 January 2017 HK$'000 (Restated)
Non-current assets				
Property, plant and equipment	19	**131,143**	196,344	296,991
Intangible asset	21	**31,681**	35,217	36,918
Deferred tax assets	32	**13,784**	12,175	13,013
Prepaid land lease payments	20	**–**	16,861	16,027
Prepayments		**–**	3,623	–
Deposits		**–**	918	854
Total non-current assets		**176,608**	265,138	363,803
Current assets				
Prepaid land lease payments	20	**–**	377	351
Inventories	22	**6,250**	24,855	7,391
Trade and bills receivables	23	**1,983**	2,850	7,655
Deposits, prepayments and other receivables		**14,984**	11,166	9,173
Due from non-controlling shareholder	27	**5,717**	–	–
Restricted bank deposits	24	**7,321**	10,737	7,134
Bank and cash balances	25	**155,635**	105,286	93,238
Total current assets		**191,890**	155,271	124,942
Current liabilities				
Accrued charges and other payables	26	**112,262**	186,630	194,766
Contract liabilities	8	**18,922**	–	–
Due to non-controlling shareholder	27	**–**	7,393	6,874
Other loans	28	**13,653**	–	25,228
Total current liabilities		**144,837**	194,023	226,868
Net current assets/(liabilities)		**47,053**	(38,752)	(101,926)
Total assets less current liabilities		**223,661**	226,386	261,877

	Note	**31 December 2018 HK$'000**	31 December 2017 HK$'000 (Restated)	1 January 2017 HK$'000 (Restated)
Non-current liabilities				
Due to a director	29	**–**	20,883	20,230
Other loans	28	**–**	10,994	9,150
Provision	30	**4,974**	5,245	–
Deferred tax liabilities	32	**15,348**	31,313	28,546
Deferred revenue	31	**–**	–	2,233
Total non-current liabilities		**20,322**	68,435	60,159
NET ASSETS		**203,339**	157,951	201,718
Capital and reserves				
Share capital	33	**15,035**	15,035	251,739
Reserves		**138,533**	111,452	(95,280)
Equity attributable to owners of the Company		**153,568**	126,487	156,459
Non-controlling interests		**49,771**	31,464	45,259
TOTAL EQUITY		**203,339**	157,951	201,718

Approved by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Ng Ying Kit
Director

Ren Hang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

		Attributable to owners of the Company											
	Note	Share capital HK$'000	Share premium HK$'000	Capital reserve HK$'000	Distributable reserve HK$'000	Future development fund HK$'000	Safety fund HK$'000	Foreign currency translation reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017													
As previous reported		251,739	–	(1,628)	–	23,221	57,011	5,327	4,305	(182,346)	157,629	45,259	202,888
Prior year adjustments		–	–	–	–	–	–	106	–	(1,276)	(1,170)	–	(1,170)
As restated		251,739	–	(1,628)	–	23,221	57,011	5,433	4,305	(183,622)	156,459	45,259	201,718
Total comprehensive income for the year		–	–	–	–	–	–	6,697	–	(143,604)	(136,907)	(13,795)	(150,702)
Share options lapsed	34	–	–	–	–	–	–	–	(1,232)	1,232	–	–	–
Capital reduction	33(i)	(246,704)	–	–	135,282	–	–	–	–	111,422	–	–	–
Issue of shares	33(ii)	10,000	96,935	–	–	–	–	–	–	–	106,935	–	106,935
Net appropriations		–	–	–	–	2,412	13,987	–	–	(16,399)	–	–	–
Changes in equity for the year		(236,704)	96,935	–	135,282	2,412	13,987	6,697	(1,232)	(47,349)	(29,972)	(13,795)	(43,767)
At 31 December 2017		15,035	96,935	(1,628)	135,282	25,633	70,998	12,130	3,073	(230,971)	126,487	31,464	157,951
At 1 January 2018													
As previous reported		**15,035**	**96,935**	**(1,628)**	**135,282**	**25,633**	**70,998**	**12,126**	**3,073**	**(229,331)**	**128,123**	**31,464**	**159,587**
Prior year adjustments		**–**	**–**	**–**	**–**	**–**	**–**	**4**	**–**	**(1,640)**	**(1,636)**	**–**	**(1,636)**
Initial adoption of HKFRS 9	3(a)A(ii)(I)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(355)**	**(355)**	**(276)**	**(631)**
As restated		**15,035**	**96,935**	**(1,628)**	**135,282**	**25,633**	**70,998**	**12,130**	**3,073**	**(231,326)**	**126,132**	**31,188**	**157,320**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**–**	**–**	**4,059**	**–**	**(18,933)**	**(14,874)**	**11,488**	**(3,386)**
Disposal of subsidiaries	37(a)	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**7,095**	**7,095**
Share options granted	34	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**42,310**	**–**	**42,310**	**–**	**42,310**
Net appropriations		**–**	**–**	**–**	**–**	**4,545**	**17,049**	**–**	**–**	**(21,594)**	**–**	**–**	**–**
Changes in equity for the year		**–**	**–**	**–**	**–**	**4,545**	**17,049**	**4,059**	**42,310**	**(40,527)**	**27,436**	**18,583**	**46,019**
At 31 December 2018		**15,035**	**96,935**	**(1,628)**	**135,282**	**30,178**	**88,047**	**16,189**	**45,383**	**(271,853)**	**153,568**	**49,771**	**203,339**

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (Restated and represented)
CASH FLOWS FROM OPERATING ACTIVITIES		
(Loss)/profit before tax		
Continuing operations	**(30,361)**	(49,490)
Discontinued operation (note 16)	**7,758**	(108,268)
	(22,603)	(157,758)
Adjustments for:		
Finance costs	**1,214**	1,169
Interest income	**(409)**	(53)
Depreciation and amortisation	**19,867**	23,130
Equity-settled share-based payments	**42,310**	–
Loss/(gain) on disposals of property, plant and equipment	**532**	(653)
Gain on disposal of subsidiaries (note 37(a))	**(20,595)**	–
Impairment loss on intangible asset	**–**	2,477
Impairment loss on property, plant and equipment	**8,486**	118,417
Impairment loss on trade and other receivables	**622**	–
Income from waiving of interest expense	**–**	(3,011)
Provision for the year (note 30)	**–**	5,054
Operating profit/(loss) before working capital changes	**29,424**	(11,228)
Decrease/(increase) in inventories	**17,914**	(17,464)
(Increase)/decrease in trade and bills receivables	**(496)**	5,188
Decrease/(increase) in deposits, prepayments and other receivables	**5,245**	(5,239)
Increase/(decrease) in accrued charges and other payables	**16,287**	(21,186)
Decrease in contract liabilities	**(3,845)**	–
Net cash generated from/(used in) operating activities	**64,529**	(49,929)
CASH FLOWS FROM INVESTING ACTIVITIES		
Loan to non-controlling shareholder	**(5,940)**	–
Interest received	**385**	53
Purchase of property, plant and equipment	**(6,572)**	(21,231)
Proceeds from disposals of property, plant and equipment	**–**	1,083
Net cash inflow from disposal of subsidiaries (note 37(a))	**1,538**	–
Decrease/(increase) in restricted bank deposits	**2,973**	(3,603)
Net cash used in investing activities	**(7,616)**	(23,698)

For the year ended 31 December 2018

	2018 HK$'000	2017 HK$'000 (Restated and represented)
CASH FLOWS FROM FINANCING ACTIVITIES		
Repayment of loan from non-controlling shareholder (note 37(b))	**(7,285)**	–
Other loans raised (note 37(b))	**828**	1,904
Repayment of other loans (note 37(b))	**(7,513)**	(26,302)
Repayment of loan from a director (note 37(b))	**–**	(1,000)
Proceeds from issue of shares	**–**	106,935
Net cash (used in)/generated from financing activities	**(13,970)**	81,537
NET INCREASE IN CASH AND CASH EQUIVALENTS	**42,943**	7,910
Effect of foreign exchange rate changes	**7,406**	4,138
CASH AND CASH EQUIVALENTS AT 1 JANUARY	**105,286**	93,238
CASH AND CASH EQUIVALENTS AT 31 DECEMBER	**155,635**	105,286
ANALYSIS OF CASH AND CASH EQUIVALENTS		
Bank and cash balances	**155,635**	105,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. General Information

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

The Company is an investment holding company. The principal activities of its subsidiaries are the production and sale of coal (the "**Coal Mining Business**") and provision of low-rank coal upgrading services (the "**Coal Upgrading Business**"). In December 2018, the Group disposed of and discontinued its Coal Upgrading Business.

2. Basis of Preparation

(a) Statement of compliance

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

(b) Basis of measurement

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

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

2. Basis of Preparation (Continued)

(c) Functional and presentation currency

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

(d) Use of judgments and estimates

The preparation of financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas involving critical judgements and areas where assumptions and estimates are significant to these financial statements, are disclosed in note 6.

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

(a) Application of new and revised HKFRSs

The HKICPA has issued a number of new and revised HKFRSs that are first effective for annual periods beginning on or after 1 January 2018. Of these, the following new or revised HKFRSs are relevant to the Company.

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
HK(IFRIC) – Int 22	Foreign Currency Transactions and Advance Consideration

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

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

The adoption of these amendments has no impact on these financial statements as the Group does not have any cash-settled share-based payment transaction and has no share-based payment transaction with net settlement features for withholding tax.

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

(a) Application of new and revised HKFRSs (Continued)

A. HKFRS 9 – Financial Instruments

(i) Classification and measurement of financial instruments

HKFRS 9 replaces HKAS 39 Financial Instruments: Recognition and Measurement for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss ("**FVTPL**"), transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("**amortised costs**"); (ii) financial assets at fair value through other comprehensive income ("**FVOCI**"); or (iii) FVTPL (as defined in above). The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "**solely payments of principal and interest**" criterion, also known as "**SPPI criterion**"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

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

(a) Application of new and revised HKFRSs (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

A financial asset is measured at amortised cost if it meets both of the following conditions are met and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

A debt investment is measured at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to achieved by both collecting contractual cash flows and selling financial assets; and
- The contractual terms of the financial asset give rise on specified dates to cash flows that meet the SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrevocably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

The following accounting policies has been applied to the Group's financial assets as follows:

Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

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

(a) Application of new and revised HKFRSs (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial instruments (Continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 HK$'000	Carrying amount as at 1 January 2018 under HKFRS 9 HK$'000
Deposits, prepayments and other receivables	Loans and receivables (note 3(a)A (ii)(II))	Amortised cost	11,166	11,166
Trade and bills receivables	Loans and receivables (note 3(a)A(ii)(I))	Amortised cost	2,850	2,219

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("**ECLs**") model". HKFRS 9 requires the Group to recognised ECL for trade receivables, financial assets at amortised costs, contract assets and debt investment at FVOCI earlier than HKAS 39. Cash and cash equivalents are subject to ECL model but the impairment is immaterial for the current period.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

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

(a) Application of new and revised HKFRSs (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs

ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For all other financial instruments, the Group measures the loss allowance equal to 12-months ECLs, 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 increase in the likelihood or risk of a default occurring since initial recognition.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

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

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

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

(a) Application of new and revised HKFRSs (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Impact of the ECL model

(I) Impairment of trade and bills receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade and bills receivables. To measure the ECLs, trade and bills receivables have been grouped based on shared credit risk characteristics and the days past due. Based on management assessment, the loss allowance as at 1 January 2018 was HK$631,000.

(II) Impairment of other receivables

Other financial assets at amortised cost of the Group include other receivables. Applying the ECL model, no loss allowance is required at 1 January 2018.

(iii) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassifications and the adjustments arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

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

(a) Application of new and revised HKFRSs (Continued)

A. HKFRS 9 – Financial Instruments (Continued)

(iii) Transition (Continued)

The assessment on the determination of business model have been made on the basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "**DIA**"):

- The determination of the business model within which a financial asset is held;
- The designation and revocation of previous designations of certain financial assets and financial liabilities as measured at FVTPL; and
- The designation of certain investments in equity investments not held for trading as at FVOCI.

If an investment in a debt investment had low credit risk at the DIA, then the Group has assumed that the credit risk on the asset had not increased significantly since its initial recognition.

B. HKFRS 15 Revenue from Contracts with Customers ("HKFRS 15")

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-steps model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method with practical expedients whereby any cumulative effect of initially applying HKFRS 15 is recognised as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated in this respect. The adoption of HKFRS 15 from 1 January 2018 has resulted in change in accounting policies of the Group. The impact on the adoption of HKFRS 15 to the Group's financial statements as at 1 January 2018 is the reclassification of an amount of HK$23,856,000 from accrued charges and other payables to contract liabilities. The impact to the consolidated financial statements of the Group as at 31 December 2018 is increase in contract liabilities and decrease in accrued charges and other payables for an amount of HK$18,922,000.

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

(a) Application of new and revised HKFRSs (Continued)

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first year.

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

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

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

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

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

The Group has not early applied new and revised HKFRSs that have been issued but are not yet effective for the financial year beginning 1 January 2018. These new and revised HKFRSs include the following which may be relevant to the Group.

HKFRS 16	Leases[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, Business Combinations[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKAS 12, Income Taxes[1]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKFRS 3	Definition of a Business[3]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for transactions that occur on or after 1 January 2020

HKFRS 16 – Leases

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

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of approximately HK$3,412,000 as disclosed in note 40. The Group considers that the adoption of the new standard will have some impact on the consolidated financial position of the Group as the related right-of-use assets and lease liabilities will be recognised upon adoption of the new standard in the future. There will also have some impact on the consolidated income statement of the Group as the impact of amortisation of the right-of-use assets and unwinding the discount of the related payable will be different from the operating lease charges that would have been recognised under the current standard.

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

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

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

The Interpretation supports the requirements of HKAS 12, Income Taxes, by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes.

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

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

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

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3, Business Combinations

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12, Income Taxes

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

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

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

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition of material to make it easier for entities to make materiality judgements. The definition of material, an important accounting concept in HKFRS Standards, helps entities decide whether information should be included in their financial statements.

Amendments to HKFRS 3 – Definition of a Business

The amendments improve the definition of a business. The amended definition emphasises that the output of a business is to provide goods and services to customers, whereas the previous definition focused on returns in the form of dividends, lower costs or other economic benefits to investors and others. In addition to amending the wording of the definition, the Board has provided supplementary guidance.

Distinguishing between a business and a group of assets is important because an acquirer recognises goodwill only when acquiring a business.

4. Significant Accounting Policies

(a) Consolidation

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

4. Significant Accounting Policies (Continued)

(a) Consolidation (Continued)

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

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

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(b) Business combination and goodwill

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(c) Foreign currency translation

(i) Functional and presentation currency

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

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

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

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

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

(iii) Translation on consolidation

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

- Assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;
- Income and expenses are translated at average exchange rates for the period (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the exchange rates on the transaction dates); and
- All resulting exchange differences are recognised in other comprehensive income and accumulated in the foreign currency translation reserve.

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

4. Significant Accounting Policies (Continued)

(c) Foreign currency translation (Continued)

(iii) Translation on consolidation (Continued)

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

(d) Property, plant and equipment

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

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

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

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(e) Operating leases

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

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

(f) Intangible asset

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

(g) Inventories

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

(h) A Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at fair value through profit or loss ("**FVTPL**"), transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. Significant Accounting Policies (Continued)

(h) A Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(i) Financial assets (Continued)

Debt instruments

Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("**ECL**") on trade receivables, financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

4. Significant Accounting Policies (Continued)

(h) A Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(ii) Impairment loss on financial assets (Continued)

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at amortised cost are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including accrued charges and other payables, amount due to non-controlling interests, other loans are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

4. Significant Accounting Policies (Continued)

(h) A Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(iv) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(v) Equity instruments

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

(vi) Derecognition

The Group derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expires.

Where the Group issues its own equity instruments to a creditor to settle a financial liability in whole or in part as a result of renegotiating the terms of that liability, the equity instruments issued are the consideration paid and are recognised initially and measured at their fair value on the date the financial liability or part thereof is extinguished. If the fair value of the equity instruments issued cannot be reliably measured, the equity instruments are measured to reflect the fair value of the financial liability extinguished. The difference between the carrying amount of the financial liability or part thereof extinguished and the consideration paid is recognised in profit or loss for the year.

4. Significant Accounting Policies (Continued)

(h) B Financial instruments (accounting policies applied until 31 December 2017)

(i) Recognition and derecognition of financial instruments

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

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

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

(ii) Financial assets

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

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

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

4. Significant Accounting Policies (Continued)

(h) B Financial instruments (accounting policies applied until 31 December 2017) (Continued)

(iii) Trade and other receivables

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

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

(iv) Impairment of financial assets

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(h) B Financial instruments (accounting policies applied until 31 December 2017) (Continued)

(v) Financial liabilities and equity instruments

Financial liabilities and equity instruments are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument under HKFRSs. An equity instrument is any contract that evidences a residual interest in the assets of the Group after deducting all of its liabilities.

(vi) Borrowings

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

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

(vii) Trade and other payables

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

(viii) Equity instruments

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

4. Significant Accounting Policies (Continued)

(i) Cash and cash equivalents

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

(j) Non-current assets held for sale and discontinued operation

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

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

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

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

4. Significant Accounting Policies (Continued)

(k) A Revenue recognition (accounting policies applied from 1 January 2018)

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- 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.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Customers obtain control of the coal products when the goods are delivered to and have been accepted. Revenue is recognised upon when the customers accepted the coal products. There is generally only one performance obligation. Invoices are usually payable within 90 days. In the comparative period, revenue from sales of goods is recognised on transfer of risks and rewards of ownership, which was taken as at the time of delivery and the title is passed to customer.

4. Significant Accounting Policies (Continued)

(k) B Contract liabilities (accounting policies applied from 1 January 2018)

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

C Revenue recognition (accounting policies until 31 December 2017)

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

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

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

(l) Employee benefits

(i) Employee leave entitlements

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

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

(ii) Pension obligations

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

(iii) Termination benefits

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

4. Significant Accounting Policies (Continued)

(m) Share-based payments

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

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

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

(n) Borrowing costs

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

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

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

(o) Government grants

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

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

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

4. Significant Accounting Policies (Continued)

(p) Taxation

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

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

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

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

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

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

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

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

4. Significant Accounting Policies (Continued)

(q) Impairment of non-financial assets

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

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

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

(r) Provisions and contingent liabilities

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

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

4. Significant Accounting Policies (Continued)

(s) Events after the reporting period

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

(t) Segment reporting

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Executive Directors that make strategic decisions.

5. Prior Year Adjustments

Xilinhaote City Guochuan Energy Technology Development Co. Ltd ("**Xilinhaote Guochuan**"), an indirectly wholly-owned subsidiary of the Company, entered into a Grant Contract for State-owned Land Use Right with local authority in September 2013 (the "**Land Use Right Contract**") to acquire the piece of land (the "**Land**" or "**Land Use Right**") for the construction of a coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC (the "**Coal Upgrading Plant**"). The Company did not recognise the amount of land premium paid under the Land Use Right Contract as prepaid land lease payments and the corresponding amortisation on the prepaid land lease payments in the consolidated financial statements of the Group for the year ended 31 December 2017.

The legal Land Use Right title has not been obtained up to the date of disposal of the Coal Upgrading Plant as further detailed in note 16. Following the temporary suspension of the operations and development of the Coal Upgrading Plant in July 2018, the directors have reassessed the relevant facts and circumstances and the appropriate accounting treatment in relation to the measurement of Land Use Right and considered that certain prior year adjustments should be made to correct the prior year errors as described above and certain comparative information has been restated as further detailed below and elsewhere in the consolidated financial statements.

5. Prior Year Adjustments (Continued)

The financial effects of the prior year adjustments on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017, the consolidated statement of financial position as at 31 December 2017 and 1 January 2017 are as follows:

The amounts of the adjustment for each item affected are as follows:

(i) Effects on the consolidated statement of financial position

	As previously reported at 31 December 2017 HK$'000	Effect of prior year adjustments HK$'000	As restated HK$'000
As at 31 December 2017			
Prepaid land lease payments			
– non-current assets	–	16,861	16,861
Non-current assets	248,277	16,861	265,138
Prepaid land lease payments			
– current assets	–	377	377
Current assets	154,894	377	155,271
Accrued charges and other payables			
– current liabilities	(167,756)	(18,874)	(186,630)
Current liabilities	(175,149)	(18,874)	(194,023)
Net current liabilities	(20,255)	(18,497)	(38,752)
Non-current liabilities	(68,435)	–	(68,435)
Net assets	159,587	(1,636)	157,951
Reserves			
Total equity attributable to owners of the Company	128,123	(1,636)	126,487
Total equity	159,587	(1,636)	157,951

5. Prior Year Adjustments (Continued)

(i) Effects on the consolidated statement of financial position (Continued)

	As previously reported at 31 December 2016 HK$'000	Effect of prior year adjustments HK$'000	Opening balances as at 1 January 2017, as restated HK$'000
Opening balances as at 1 January 2017			
Prepaid land lease payments			
– non-current assets	–	16,027	16,027
Non-current assets	347,776	16,027	363,803
Prepaid land lease payments			
– current assets	–	351	351
Current assets	124,591	351	124,942
Accrued charges and other payables			
– current liabilities	(177,218)	(17,548)	(194,766)
Current liabilities	(209,320)	(17,548)	(226,868)
Net current liabilities	(84,729)	(17,197)	(101,926)
Non-current liabilities	(60,159)	–	(60,159)
Net assets	202,888	(1,170)	201,718
Reserves			
Total equity attributable to owners			
of the Company	157,629	(1,170)	156,459
Total equity	202,888	(1,170)	201,718

5. Prior Year Adjustments (Continued)

(ii) Effects on the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017

	As previously reported and represented HK$'000	Effect of prior year adjustments HK$'000	As restated and represented HK$'000
Amortisation on prepaid land lease payments	–	(364)	(364)
Loss before tax			
– Continuing operation	(49,490)	–	(49,490)
– Discontinued operation	(107,904)	(364)	(108,268)
Loss for the year	(159,809)	(364)	(160,173)
Attributable to owners of the Company	(143,240)	(364)	(143,604)
Loss per share (HK cents) (restated)			
– Basic	(12.44)	(0.03)	(12.47)
– Diluted	(12.44)	(0.03)	(12.47)
Total comprehensive income for the year	(150,236)	(466)	(150,702)
Total comprehensive income attributable to owners of the Company	(136,441)	(466)	(136,907)

6. Critical Judgements and Key Estimates

Critical judgements in applying accounting policies

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

(a) Legal titles of certain buildings

As stated in note 19(a) to the consolidated financial statements, the legal titles of certain buildings were not yet obtained as at 31 December 2018. Despite the fact that the Group has not obtained the relevant legal titles, the directors determine to recognise those buildings as property, plant and equipment on the grounds that they expect the legal titles being obtained in future should have no major difficulties and the Group is in substance controlling those buildings.

6. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty

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

(a) Estimated useful lives of property, plant and equipment

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

(b) Impairment loss on property, plant and equipment

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

The carrying amount of property, plant and equipment as at 31 December 2018 was approximately HK$131,143,000 (2017: HK$196,344,000). An impairment loss on property, plant and equipment of approximately HK$8,486,000 (2017: HK$118,417,000) was recognised for the year ended 31 December 2018 and details are disclosed in note 19.

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

As at 31 December 2018, the carrying amount of the Group's property, plant and equipment allocated to the Coal CGU is approximately HK$130,645,000 (2017: HK$150,304,000). An impairment loss of HK$Nil (2017: approximately HK$10,570,000) was recognised for the year ended 31 December 2018. Details of the key assumptions used are disclosed in note 19(d).

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

6. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

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

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

As at 31 December 2017, the carrying amount of the Group's property, plant and equipment includes plant and machinery of approximately HK$1,904,000 and construction in progress of approximately HK$43,320,000 which belonged to the Coal Upgrading CGU. An impairment loss of approximately HK$107,847,000 was recognised for the year ended 31 December 2017. Details of the key assumptions used are disclosed in note 19(c).

(c) Deferred tax assets

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

The carrying amount of deferred tax assets as at 31 December 2018 was approximately HK$13,784,000 (2017: HK$12,175,000).

(d) Income taxes

Significant estimates are required in determining the provision for income taxes. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made. During the year, release of taxable timing differences previously recognised due to disposal of subsidiaries of approximately HK$14,060,000 (2017: HK$Nil) and deferred tax assets of approximately HK$3,207,000 (2017: deferred tax liabilities of approximately HK$732,000) was credited to profit or loss mainly based on the future estimated assessable income from continuing operations.

6. Critical Judgements and Key Estimates (Continued)

Key sources of estimation uncertainty (Continued)

(e) Impairment loss on intangible asset

Determining whether intangible asset is impaired requires an estimation of the value in use of the CGU to which the intangible asset has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the Coal CGU and a suitable discount rate in order to calculate the present value. Details of the key assumptions that management made when determining the value in use of the Coal CGU as at the end of the period are disclosed in note 19(d). The carrying amount of intangible asset at the end of reporting period was approximately HK$31,681,000 (2017: HK$35,217,000). An impairment loss on intangible asset of HK$Nil (2017: approximately HK$2,477,000) was recognised for the year ended 31 December 2018.

(f) Impairment loss on trade receivables

The Group makes impairment loss on trade receivables based on assessment of the recoverability of the trade receivables, including the current creditworthiness and the past collection history of each debtor. Impairments arise where events or changes in circumstances indicate that the balances may not be collectible. The identification of impairment loss on trade receivables requires the use of judgement and estimates. Where the actual result is different from the original estimate, such difference will impact the carrying value of the trade receivables and allowance for trade receivables in the year in which such estimate has been changed. If the financial conditions of the debtors were to deteriorate, resulting in an impairment of their ability to make payments, additional allowances may be required. As at 31 December 2018, accumulated impairment loss on trade receivables amounted to approximately HK$3,656,000 (2017: HK$2,593,000) (note 23).

(g) Allowance for slow-moving inventories

Allowance for slow-moving inventories is made based on the ageing and estimated net realisable value of inventories. The assessment of the allowance amount involves judgement and estimates. Where the actual outcome in future is different from the original estimate, such difference will impact the carrying value of inventories and allowance charge/write-back in the period in which such estimate has been changed. No allowance made in the years ended 31 December 2018 and 2017.

7. Financial Risk Management

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

(a) Foreign currency risk

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

(b) Credit risk

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

The Group has no significant concentration of credit risk.

Trade and bills receivables

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

The Group applies the HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade and bills receivables. The Group measures the expected credit losses on a combination of both individual and collective basis.

Measurement of expected credit loss on individual basis

Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2018, the balance of loss allowance in respect of these individually assessed receivables was HK$3,656,000 (2017: HK$2,593,000).

7. Financial Risk Management (Continued)

(b) Credit risk (Continued)

Measurement of expected credit loss on individual basis (Continued)

The following table presents the balances of gross carrying amount and the loss allowance in respect of the individually assessed receivables as at 31 December 2018 and 2017:

	As at 31 December	
	2018	2017
	HK$'000	HK$'000
Gross carrying amount	**3,656**	2,593
Loss allowance	**(3,656)**	(2,593)
Net carrying amount	**–**	–

Measurement of expected credit loss on collective basis

To measure the ECL, trade and bills receivables have been grouped based on shared credit risk characteristics and the past due days. In calculating the ECL rates, the Group considers historical elements and forward looking elements. Assessed lifetime ECL rate of trade and bills receivables is insignificant for the year ended 31 December 2018.

Other receivables and amount due from non-controlling shareholder

To manage the risk arising from other receivables and amount due from non-controlling shareholder, the Group only transacts with reputable parties that have no default history and have a strong capacity to meet its contractual cash flow obligations in the near term.

The management has assessed that the expected credit losses for other receivables and rental deposits paid are not significant.

7. Financial Risk Management (Continued)

(b) Credit risk (Continued)

Measurement of expected credit loss on collective basis (Continued)

Restricted bank deposits and bank and cash balances

There is no loss allowance for restricted bank deposits and bank and cash balances as at 31 December 2018 (2017: Nil).

The credit risk on bank and cash balances is limited because the counterparties are state-owned financial institutions and reputable banks.

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(h)B(iv)). At 31 December 2017, trade receivables of HK$2,593,000 was determined to be impaired. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 HK$'000
Neither past due nor impaired	571
181-365 days past due	1,291
Over 365 days past due	164
	2,026

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

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

7. Financial Risk Management (Continued)

(c) Liquidity risk

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

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

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

	2018 Maturity Analysis – Undiscounted cash outflows				
	On demand HK$'000	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000
Other loans	–	14,072	–	–	14,072
Accrued charges and other payables	–	97,766	–	–	97,766
	–	111,838	–	–	111,838

	2017 Maturity Analysis – Undiscounted cash outflows				
	On demand HK$'000 (Restated)	Within 1 year HK$'000	More than 1 year but less than 2 years HK$'000	More than 2 years but less than 5 years HK$'000	Total undiscounted cash outflows HK$'000 (Restated)
Due to a director	–	–	21,748	–	21,748
Due to non-controlling shareholder	–	7,393	–	–	7,393
Other loans	–	–	11,350	–	11,350
Accrued charges and other payables	18,874	129,549	–	–	148,423
	18,874	136,942	33,098	–	188,914

7. Financial Risk Management (Continued)

(d) Interest rate risk

As disclosed in notes 27, 28 and 29 to the consolidated financial statements, amount due from non-controlling shareholder, certain other loans and loans from a director of the Group bear interests at fixed interest rates and therefore are subject to fair value interest rate risk.

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

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

(e) Categories of financial instruments at 31 December

	2018 **HK$'000**	2017 HK$'000 (Restated)
Financial assets:		
Loans and receivables (including cash and cash equivalents)	**183,913**	118,873
Financial liabilities:		
Financial liabilities at amortised cost	**111,420**	187,692

(f) Fair values

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

8. Revenue

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

	2018 HK$'000	2017 HK$'000
Sales of coal	194,109	111,842
Representing:		
Continuing operations	194,109	111,842
Discontinued operation (note 16)	–	–
	194,109	111,842

With the adoption of HKFRS 15 from 1 January 2018, the disaggregation of the Group's revenue from contracts with customers are as follows:

	2018 HK$'000	2017 HK$'000
Total revenue recognised from contracts with customers	194,109	111,842

The Group recognised sales of coal of approximately HK$194,109,000 during the year ended 31 December 2018 under the Coal Segment. Sales of coal is recognised at a point in time and its external customers were located in the PRC entirely.

The following table provides information about receivables and contract liabilities from contracts with customers.

	31 December 2018 HK$'000	1 January 2018 HK$'000
Receivables (note 23)	1,983	2,219
Contract liabilities	18,922	23,856

The contract liabilities mainly relate to the advance consideration received from customers. HK$21,940,000 of the contract liabilities as of 1 January 2018 has been recognised as revenue.

9. Other Income

	2018 HK$'000	2017 HK$'000
Gain on disposals of property, plant and equipment	–	653
Interest income	409	53
Net foreign exchange gains	–	58
Waiver of other payable	197	–
Waiver of other loan interest payable	–	3,011
Reversal of provision for coal resources tax (note (a))	–	2,128
Sundry income	59	147
	665	6,050
		(Represented)
Representing:		
Continuing operations	538	2,658
Discontinued operation (note 16)	127	3,392
	665	6,050

Notes:

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

10. Segment Information

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

Coal – Production and sales of coal (the "**Coal Segment**"); and

Coal upgrading – Provision of low-rank coal upgrading services (Discontinued operation).

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

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

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

10. Segment Information (Continued)

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

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

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

	Coal HK$'000	Coal upgrading (Discontinued operation) HK$'000	Total HK$'000
Year ended 31 December 2018			
Revenue from external customers	194,109	–	194,109
Segment profit	32,758	7,758	40,516
Interest revenue	355	4	359
Interest expense	–	(497)	(497)
Income tax credit	2,929	–	2,929
Depreciation and amortisation	(18,935)	(728)	(19,663)
Loss on disposals of property, plant and equipment	(532)	–	(532)
Impairment loss on property, plant and equipment	–	(8,486)	(8,486)
Impairment loss on trade receivable	(622)	–	(622)
Additions to segment non-current assets	(6,534)	–	(6,534)
At 31 December 2018			
Segment assets	261,329	–	261,329
Segment liabilities	(167,439)	–	(167,439)

10. Segment Information (Continued)

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

	Coal HK$'000	Coal upgrading (Discontinued operation) HK$'000 (Restated)	Total HK$'000 (Restated)
Year ended 31 December 2017			
Revenue from external customers	111,842	–	111,842
Segment loss	(34,074)	(110,666)	(144,740)
Interest revenue	42	–	42
Interest expense	–	(284)	(284)
Income tax expense	(5,140)	–	(5,140)
Depreciation and amortisation	(21,273)	(1,582)	(22,855)
Gain on disposals of property, plant and equipment	–	653	653
Impairment loss on property, plant and equipment	(10,570)	(107,847)	(118,417)
Impairment loss on intangible asset	(2,477)	–	(2,477)
Additions to segment non-current assets	(3,302)	(17,929)	(21,231)
At 31 December 2017			
Segment assets	283,859	67,340	351,199
Segment liabilities	(214,199)	(201,316)	(415,515)

10. Segment Information (Continued)

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

	2018 HK$'000	2017 HK$'000 (Restated and represented)
Revenue		
Total revenue of reportable segments	**194,109**	111,842
Elimination of discontinued operation (note 16)	**–**	–
Consolidated revenue from continuing operations	**194,109**	111,842
Profit or loss		
Total profit/(loss) of reportable segments	**40,516**	(144,740)
Unallocated corporate income	**13,548**	3,082
Unallocated corporate expenses	**(59,400)**	(18,515)
Discontinued operation (note 16)	**(7,758)**	108,268
Consolidated loss for the year from continuing operations	**(13,094)**	(51,905)
Assets		
Total assets of reportable segments	**261,329**	351,199
Corporate assets	**136,656**	104,316
Deferred tax assets	**13,784**	12,174
Elimination of intersegment assets	**(43,271)**	(47,280)
Consolidated total assets	**368,498**	420,409
Liabilities		
Total liabilities of reportable segments	**167,439**	415,515
Corporate liabilities	**60,170**	27,987
Deferred tax liabilities	**15,348**	30,690
Elimination of intersegment liabilities	**(77,798)**	(211,734)
Consolidated total liabilities	**165,159**	262,458

10. Segment Information (Continued)

Geographical information:

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

	Revenue		Non-current assets	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000 (Restated)
Hong Kong	**–**	–	**128**	294
The PRC except Hong Kong	**194,109**	111,842	**162,696**	252,669
Consolidated total	**194,109**	111,842	**162,824**	252,963

Revenue from major customers:

	2018 HK$'000	2017 HK$'000
Coal Segment		
Customer a	**32,340**	29,042
Customer b	**–**	12,325
Customer c	**–**	11,446
Customer d	**26,087**	–

11. Finance Costs

	2018 HK$'000	2017 HK$'000
Interest on other loans – wholly repayable within five years	**490**	285
Interest on loans from a director	**134**	316
Imputed interest expenses	**590**	568
Total borrowing costs	**1,214**	1,169
		(Represented)
Representing:		
Continuing operations	**717**	715
Discontinued operation (note 16)	**497**	454
	1,214	1,169

12. Income Tax (Credit)/Expense

Income tax (credit)/expense has been recognised in profit or loss as follows:

	2018 HK$'000	2017 HK$'000
Current tax	**–**	–
Deferred tax (note 32)	**(17,267)**	2,415
	(17,267)	2,415
Representing:		
Continuing operations	**(17,267)**	2,415
Discontinued operation (note 16)	**–**	–
	(17,267)	2,415

(a) No provision for Hong Kong Profits Tax has been made for the year ended 31 December 2018 as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: HK$Nil).

Under the law of the PRC on Enterprise Income Tax (the "**EIT law**") and Implementation Regulation of the EIT law, the tax rate applicable to the PRC subsidiaries is 25% (2017: 25%). No provision for PRC Enterprise Income Tax was made for the financial year ended 31 December 2018 as the PRC subsidiaries did not have any assessable profits during the year.

12. Income Tax (Credit)/Expense (Continued)

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

	2018 HK$'000	2017 HK$'000 (Restated and represented)
Profit/(loss) before tax		
Continuing operations	**(30,361)**	(49,490)
Discontinued operation (note 16)	**7,758**	(108,268)
	(22,603)	(157,758)
Tax at the PRC Enterprise Income Tax rate of 25% (2017: 25%)	**(5,651)**	(39,439)
Tax effect of expenses that are not deductible	**1,800**	4,229
Tax effect of income that are not taxable	**(5,272)**	(1,297)
Tax effect of temporary differences not recognised	**(3,151)**	24,485
Tax effect of tax losses not recognised	**3,630**	16,876
Tax effect of utilisation of tax losses not previously recognised	**655**	(3,682)
Reversal of deferred tax on undistributed earnings of a PRC subsidiary	**(278)**	(288)
Release of taxable timing differences previously recognised	**(14,061)**	–
Effect of different tax rates	**5,061**	1,531
Income tax (credit)/expense	**(17,267)**	2,415

13. Loss for the Year

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

	Continuing operations		Discontinued operation		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
		(Represented)		(Restated and represented)		(Restated)
Auditor's remuneration	**1,510**	1,080	**–**	–	**1,510**	1,080
Amortisation of prepaid lease payment	**–**	–	**372**	364	**372**	364
Amortisation of mining right (included in cost of sales)	**1,782**	1,851	**–**	–	**1,782**	1,851
Cost of inventories sold	**120,576**	96,119	**–**	–	**120,576**	96,119
Depreciation of property, plant and equipment	**17,357**	19,727	**356**	1,188	**17,713**	20,915
Loss/(gain) on disposals of property, plant and equipment	**532**	–	**–**	(653)	**532**	(653)
Impairment loss on property, plant and equipment (note 19)	**–**	10,570	**8,486**	107,847	**8,486**	118,417
Impairment loss on intangible asset (note 21)	**–**	2,477	**–**	–	**–**	2,477
Impairment loss on receivables – trade receivables (note 23)	**622**	–	**–**	–	**622**	–
Operating lease charges – Land and buildings	**2,586**	2,426	**592**	578	**3,178**	3,004

Cost of inventories sold includes staff costs, amortisation of mining right and depreciation of approximately HK$46,517,000 (2017: HK$55,042,000) which are included in the amounts disclosed separately.

14. Employee Benefits Expense (Including Directors' Emoluments)

	2018 HK$'000	2017 HK$'000
Employee benefits expense:		
Salaries, bonuses and allowances	**64,540**	68,169
Equity-settled share-based payments (note 34)	**21,741**	–
Retirement benefit scheme contributions	**2,803**	1,759
	89,084	69,928

The Group operates/participates in the following pension and post retirement plans:

(i) The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "**MPF Scheme**") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

(ii) Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in defined contribution retirement benefit schemes (the "**Schemes**") organised by the local government authorities whereby the Group is required to make contributions to the Schemes based on certain percentages of the eligible employee's salaries. The local government authorities are responsible for the entire pension obligations payable to the retired employees. The Group has no other obligations for payments of retirement and other post-retirement benefits of employees other than the contributions described above.

14. Employee Benefits Expense (Including Directors' Emoluments) (Continued)

Five highest paid individuals

The five highest paid individuals in the Group during the year included two (2017: two) directors whose emoluments are reflected in the analysis presented in note 15. The emoluments of the remaining three (2017: three) individuals are set out below:

	2018 HK$'000	2017 HK$'000
Basic salaries and allowances	2,160	4,468
Discretionary bonus	200	–
Retirement benefit scheme contribution	36	–
Equity-settled share-based payments (note 34)	12,341	–
	14,737	4,468

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
HK$1,000,001 – HK$1,500,000	–	2
HK$1,500,001 – HK$2,000,000	–	–
HK$2,000,001 – HK$2,500,000	–	1
HK$2,500,001 – HK$3,000,000	–	–
HK$3,000,001 – HK$3,500,000	–	–
HK$3,500,001 – HK$4,000,000	–	–
HK$4,000,001 – HK$4,500,000	1	–
HK$4,500,001 – HK$5,000,000	1	–
HK$5,000,001 – HK$5,500,000	–	–
HK$5,500,001 – HK$6,000,000	1	–
	3	3

15. Benefits and Interests of Directors

(a) Directors' emoluments

The emoluments of each director is set out below:

	Emoluments paid or receivable in respect of a person's services as a director, whether of the Company or its subsidiary undertaking					
Name of director	Fees HK$'000	Salaries and allowances HK$'000	Discretionary bonus HK$'000	Employer's contribution to a retirement benefit scheme HK$'000	Estimated money value of share options HK$'000	Total HK$'000
Mr. Xu Bin (note (i))	**–**	**406**	**–**	**9**	**–**	**415**
Mr. Zhang Fusheng (note (ii))	**–**	**100**	**–**	**–**	**–**	**100**
Mr. Ren Hang (note (iii))	**–**	**317**	**–**	**8**	**4,700**	**5,025**
Mr. Ng Ying Kit	**–**	**1,440**	**240**	**18**	**4,700**	**6,398**
Ms. Huo Lijie	**–**	**383**	**–**	**5**	**–**	**388**
Mr. Kwok Chi Shing	**240**	**–**	**–**	**–**	**–**	**240**
Mr. Huang Shaoru	**120**	**–**	**–**	**–**	**–**	**120**
Mr. Chang Xuejun	**240**	**–**	**–**	**–**	**–**	**240**
Total for 2018	**600**	**2,646**	**240**	**40**	**9,400**	**12,926**
Mr. Xu Bin (note (i))	–	2,400	–	18	–	2,418
Mr. Zhang Fusheng (note (ii))	–	600	–	–	–	600
Mr. Ng Ying Kit	–	1,440	360	18	–	1,818
Ms. Huo Lijie	–	495	–	–	–	495
Mr. Kwok Chi Shing	240	–	–	–	–	240
Mr. Huang Shaoru	120	–	–	–	–	120
Mr. Chang Xuejun	240	–	–	–	–	240
Total for 2017	600	4,935	360	36	–	5,931

Notes:

(i) Passed away on 12 June 2018

(ii) Resigned on 23 July 2018

(iii) Appointed on 23 July 2018

Neither the chief executive nor any of the directors waived any emoluments during the year (2017: HK$Nil).

15. Benefits and Interests of Directors (Continued)

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

Pursuant to agreements dated 2 January 2014, 5 May 2014 and 7 May 2015 (collectively refer to as the "**Loan Agreements**") made between the Company and Mr. Xu Bin ("**Mr. Xu**"), the Company agreed to pay interest expense to Mr. Xu for loans granted to the Company in accordance with the terms of the Loan Agreements. An interest expense for the year ended 31 December 2018 of HK$134,000 (2017: HK$316,000) was paid to Mr. Xu.

Pursuant to an agreement dated 1 December 2015 (the "**License Agreement**") made between the Company and Mr. Xu, the Company agreed to pay license fee to Mr. Xu for the non-exclusive right to use the five registered patents in the PRC in relation to low-rank coal upgrading methodologies and manufacturing of steam digesters in accordance with the terms of the License Agreement. Mr. Xu was paid a nominal license fee of HK$Nil for the year ended 31 December 2018 (2017: HK$1).

Mr. Xu was an executive director of the Company and had directly interested in these transactions. Mr. Xu passed away on 12 June 2018.

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

16. Discontinued Operation

Pursuant to sale and purchase agreements dated 30 November 2018 entered into between (i) Wealthy Tone Worldwide Limited and Shanghai Wealthy Ocean International Trading Co., Ltd., as vendors, both are indirect wholly-owned subsidiaries of the Company; and Shenzhen Yuhai Investment Co. Ltd (深圳市鈺海投資有限公司), a deemed connected person of the Company (the "**Purchaser**"); and (ii) Wealth Business Investment Limited, an indirect wholly-owned subsidiary of the Company and the Purchaser, the Group divested 100% equity interests in (i) Xilinhaote City Guochuan Energy Technology Development Co. Ltd ("**Xilinhaote Guochuan**") and (ii) Beijing Guochuan New Energy Development Co., Ltd. ("**Beijing Guochuan**") and its subsidiary, Changchun Guochuan Energy and Technology Development Co., Ltd. (collectively, "**BG Group**"), at a consideration of RMB8 million (approximately HK$9,110,000) and RMB1 (approximately HK$1), respectively (the "**Disposal**"). Xilinhaote Guochuan is principally engaged in the Coal Upgrading Business while BG Group is inactive. The Disposal was completed in December 2018 and the Group discontinued its Coal Upgrading Business since then.

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

	2018 **HK$'000**	2017 HK$'000
Loss for the year	**(12,837)**	(108,268)
Gain on disposal of subsidiaries (note 37(a))	**20,595**	–
Profit/(loss) for the year from discontinued operation	**7,758**	(108,268)
Profit/(loss) for the year from discontinued operation attributable to:		
Owners of the Company	**8,085**	(107,019)
Non-controlling interest	**(327)**	(1,249)
	7,758	(108,268)

16. Discontinued Operation (Continued)

The results of the discontinued operation for period from 1 January 2018 to 31 December 2018, which have been included in consolidated profit and loss for the year ended 31 December 2018 are as follows:

	2018 HK$'000	2017 HK$'000
Revenue (note 8)	–	–
Other income (note 9)	127	3,392
Administrative expenses	(3,609)	(2,995)
Amortisation of land use right	(372)	(364)
Impairment loss on property, plant and equipment	(8,486)	(107,847)
Loss from operations	(12,340)	(107,814)
Finance costs (note 11)	(497)	(454)
Loss before tax	(12,837)	(108,268)
Income tax expense (note 12)	–	–
Loss for the year	(12,837)	(108,268)
Cash flows from discontinued operation:		
Net cash used in operating activities	(4,022)	(2,327)
Net cash generated from/(used in) investing activities	2,993	(10,593)
Net cash generated from financing activities	1,325	8,669
Net cash inflow/(outflows)	296	(4,251)

17. Dividends

The directors do not recommend the payment of any final dividend for the year ended 31 December 2018 (2017: HK$Nil).

18. Loss Per Share

(a) From continuing and discontinued operation

Basic loss per share

The calculation of basic losses per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$18,933,000 (2017: HK$143,604,000 (restated)) and the weighted average number of ordinary shares of 1,503,477,166 (2017: 1,151,798,178) in issue during the year.

Diluted loss per share

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

(b) From continuing operations

Basic loss per share

The calculation of basic loss from continuing operations per share attributable to owners of the Company is based on the loss for the year attributable to owners of the Company of approximately HK$27,018,000 (2017: HK$36,585,000 (represented)) and the weighted average number of ordinary shares using the denominators detailed above for basic loss per share from continuing and discontinued operation.

Diluted loss per share

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

(c) From discontinued operation

Basic earnings per share from the discontinued operation is HK0.54 cent per share (2017: loss per share HK9.29 cents), based on the profit for the year from discontinued operation attributable to the owners of the Company of approximately HK$8,085,000 (2017: loss of HK$107,019,000 (restated and represented)) and the weighted average number of ordinary shares using the denominators detailed above for basic loss per share from continuing and discontinued operation.

Diluted loss per share

The computation of diluted loss per share for the years ended 31 December 2018 and 2017 does not assume the exercise of share options granted by the Company as the exercise price of those options was higher than the average market price for shares.

19. Property, Plant and Equipment

	Buildings HK$'000	Leasehold improvements HK$'000	Mining structures HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2017	107,699	2,765	127,705	229,260	27,912	11,736	168,000	675,077
Additions	1,326	–	–	1,579	164	787	17,375	21,231
Reclassification	436	(650)	–	–	214	–	–	–
Disposals/write off	–	–	–	(125)	(172)	(957)	–	(1,254)
Exchange differences	8,225	–	9,655	17,382	1,995	845	13,359	51,461
At 31 December 2017	117,686	2,115	137,360	248,096	30,113	12,411	198,734	746,515
At 1 January 2018	**117,686**	**2,115**	**137,360**	**248,096**	**30,113**	**12,411**	**198,734**	**746,515**
Additions	**3,368**	**–**	**509**	**1,268**	**90**	**1,337**	**–**	**6,572**
Disposals/write off	**–**	**–**	**–**	**(8,539)**	**–**	**(473)**	**–**	**(9,012)**
Disposal of subsidiaries (Note 37(a))	**–**	**–**	**–**	**(22,349)**	**(86)**	**(1,419)**	**(195,821)**	**(219,675)**
Exchange differences	**(6,213)**	**–**	**(7,124)**	**(11,716)**	**(1,471)**	**(621)**	**(2,913)**	**(30,058)**
At 31 December 2018	**114,841**	**2,115**	**130,745**	**206,760**	**28,646**	**11,235**	**–**	**494,342**

19. Property, Plant and Equipment (Continued)

	Buildings HK$'000	Leasehold improvements HK$'000	Mining structures HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Accumulated depreciation and impairment								
At 1 January 2017	64,606	2,205	74,699	159,604	25,284	6,905	44,783	378,086
Charge for the year	3,834	–	2,667	11,810	1,506	1,098	–	20,915
Reclassification	63	(90)	–	–	27	–	–	–
Disposals/write off	–	–	–	(130)	(162)	(532)	–	(824)
Impairment (note (c) to (e))	2,894	–	3,555	8,234	93	307	103,334	118,417
Exchange differences	5,143	–	5,883	12,820	1,878	556	7,297	33,577
At 31 December 2017	76,540	2,115	86,804	192,338	28,626	8,334	155,414	550,171
At 1 January 2018	**76,540**	**2,115**	**86,804**	**192,338**	**28,626**	**8,334**	**155,414**	**550,171**
Charge for the year	**2,508**	**–**	**2,533**	**10,366**	**1,127**	**1,179**	**–**	**17,713**
Disposals/write off	**–**	**–**	**–**	**(7,150)**	**–**	**(30)**	**–**	**(7,180)**
Impairment (note (c))	**–**	**–**	**–**	**–**	**–**	**–**	**8,486**	**8,486**
Disposal of subsidiaries (note 37(a))	**–**	**–**	**–**	**(20,828)**	**(83)**	**(1,395)**	**(161,622)**	**(183,928)**
Exchange differences	**(4,053)**	**–**	**(4,584)**	**(9,285)**	**(1,441)**	**(422)**	**(2,278)**	**(22,063)**
At 31 December 2018	**74,995**	**2,115**	**84,753**	**165,441**	**28,229**	**7,666**	**–**	**363,199**
Carrying amount								
At 31 December 2018	**39,846**	**–**	**45,992**	**41,319**	**417**	**3,569**	**–**	**131,143**
At 31 December 2017	41,146	–	50,556	55,758	1,487	4,077	43,320	196,344

19. Property, Plant and Equipment (Continued)

Notes:

(a) At 31 December 2018, the carrying amount of certain buildings amounted to approximately HK$22,209,000 (2017: HK$26,743,000) for which relevant legal titles have not yet been obtained. At the date of approval of these consolidated financial statements, the application for obtaining the aforesaid legal titles is still in progress.

(b) Construction in progress has been disposed throughout the disposal of subsidiaries during the year. At 31 December 2017, the construction in progress of approximately HK$43,320,000 represented a low-rank coal upgrading plant in Xilinhaote City, Inner Mongolia, the PRC under construction by Xilinhaote Guochuan, an indirect non wholly-owned subsidiary of the Company. The Coal Upgrading Plant has been constructed on a piece of land under a Grant Contract for State-owned Land Use Right. The legal Land Use Right title has not been obtained up to the date of disposal and the grant of which is subject to the payment of land premium of approximately HK$18.9 million (restated).

(c) The Group had been in progress to construct a Coal Upgrading Plant at Xilinhaote City, Inner Mongolia, PRC with a maximum annual capacity of two million tonnes of upgraded coal output since 2013. The first phase of Coal Upgrading Plant with annual output of 500,000 tonnes had been substantially completed by the end of December 2015. During the preparation of the trial run in the third quarter of 2017, the Coal Upgrading Plant encountered a technical issue with the autoclaves in relation to the obstruction of the valves during the process of high-pressured steaming. The Group had then employed provisional autoclaves for a small scale of trial production to preclude temporarily such technical issue in the fourth quarter of 2017. By the end of year 2017, approximately 1,200 tonnes of upgraded coals were produced.

As at 31 December 2017, the carrying amounts of the Group's property, plant and equipment included plant and machinery and construction in progress of approximately HK$1,904,000 and HK$43,320,000, respectively, and deposits under non-current assets of approximately HK$918,000 belonged to the Coal Upgrading CGU. For the purpose of impairment assessment for the financial year ended 31 December 2017, the directors of the Company prepared a cash flow forecast based on the value in use approach with the assumptions that the Coal Upgrading CGU will implement the business plan to commence coal upgrading annual production of 500,000 tonnes in January 2019. According to the cash flow forecast, the recoverable amount of the Coal Upgrading CGU as at 31 December 2017 was approximately HK$46,170,000. The variance between the carrying amounts as at 31 December 2017 and the recoverable amount of the Coal Upgrading CGU of HK$107,847,000 was recognised as an impairment loss for the financial year ended 31 December 2017. Up to the date of this financial statements, the technical issue as described above had not been resolved and hence the directors of the Company agree that it is unlikely the business plan in relation to the anticipated annual production of 500,000 tonnes can be achieved in January 2019. As a result, the recoverable amount of the Coal Upgrading CGU as at 31 December 2017 so as the impairment loss on the non-current assets of the Coal Upgrading CGU for the financial year 31 December 2017 shall be adjusted. It may have a significant effect on the consolidated statement of profit or loss and the corresponding movement in the consolidated statement of cash flows for the year ended 31 December 2018.

Key assumptions adopted by the management in the cash flow forecast of Coal Upgrading CGU for the year ended 31 December 2017 were as follows:

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

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

19. Property, Plant and Equipment (Continued)

Notes: (Continued)

(c) (Continued)

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

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

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

An impairment loss on property, plant and equipment of approximately HK$8,486,000 has been recognised during the year ended 31 December 2018. The impairment assessment performed by the directors of the Company was prepared based on the recoverable amounts of respective individual assets of the Coal Upgrading CGU as determined by the fair value less costs to sell using replacement cost approach.

As further explained in notes 16 and 37(a) to the consolidated financial statements, the Group disposed of the entire equity interests in Xilinhaote Guochuan and BG Group during the year and ceased the coal upgrading business thereafter. For the purpose of the disposal of the Coal Upgrading CGU, the same valuation technique has been used by the directors of the Company in assessing the valuation of the Coal Upgrading CGU. No significant change on the valuation of the Coal Upgrading CGU is noted. As a result, an impairment loss on property, plant and equipment of approximately HK$8,486,000 has been recognised by the Group for the financial year ended 31 December 2018. The variance on the consideration and the carrying amount of the Coal Upgrading CGU represents gain on disposal of subsidiaries of approximately HK$20,595,000 (note 37(a)) have been recognised in the consolidated profit or loss for the year. In the opinion of the directors, the cost outweigh the benefit of reassessing the recoverable amount of the Coal Upgrading CGU and the Coal Upgrading CGU had been entirely disposed during the year.

(d) Given the challenging market conditions in the mining industry and the reduction in coal production output in order to comply with relevant policies of the coal industry in the PRC, the Group tested the assets belonging to the Coal CGU for impairment. As at 31 December 2018, the Group assessed the recoverable amount of the assets, including the property, plant and equipment and the intangible asset (note 21), allocated to the Coal CGU, having regard to the market conditions of coal in the PRC. The review led to the recognition of an impairment loss on property, plant and equipment under the Coal CGU of HK$Nil (2017: approximately HK$10,570,000) that has been recognised in profit or loss for the year ended 31 December 2018.

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

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

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

(ii) The coal from the Inner Mongolia Mine 958 will be sold at the average selling price of RMB136 (2017: RMB135) per tonne (with value-added tax of 16%) for 2019 with an annual growth rate of 2.5% in the subsequent years for the period until the expiry date of the business license.

19. Property, Plant and Equipment (Continued)

Notes: (Continued)

(d) (Continued)

(iii) Inflation rate of 2.5% p.a. (2017: 2.5%) is applied in the cash flow forecast for the period until the expiry date of the business license. The inflation rate does not exceed the average inflation rate for the relevant market in the PRC.

(iv) Pre-tax discount rate of 16.16% (2017: 15.51%) is adopted based on the assessment of the discount rate analysis independently performed by an independent valuer engaged by the Company.

As at 31 December 2017, the recoverable amount of the assets of Coal CGU of approximately HK$185,521,000 had been determined by the directors based on the value in use approach by reference to the discounted cash flow forecasts for the period until the expiry date of the business license. Accordingly, impairment losses on property, plant and equipment, intangible assets and related income tax of HK$10,570,000, HK$2,477,000 and HK$2,356,000 were recognised for the year ended 31 December 2017. In assessing the recoverable amount of the Coal CGU as at 31 December 2016 as determined by the directors based on the value in use approach by reference to the discounted cash flow forecasts, one of the assumptions was the estimated production volume over the forecast period was based on the pre-approved production limit of 1,200,000 tonnes per annum in accordance with the exclusive mining right agreement signed with the owner of the coal mine. However, the local government imposed a policy subsequently which reduced the production limit by around 16%. As the resumption of production at the then assessment cannot be concretely forecasted, the recoverable amount of the Coal CGU as at 31 December 2016 was not supported with the reasonableness of the revenue stated in the then forecast. In the opinion of the directors, the cost outweigh the benefit of reassessing the recoverable amount of the Coal CGU at 31 December 2016 and the impact will not affect the profit or loss for the year ended 31 December 2018.

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

20. Prepaid Land Lease Payments

	2018 **HK$'000**	2017 HK$'000 (Restated)
At 1 January	**17,238**	16,378
Amortisation for the year	**(372)**	(364)
Disposal of subsidiaries (note 37(a))	**(15,989)**	–
Exchange differences	**(877)**	1,224
At 31 December	**–**	17,238
Current portion	**–**	(377)
Non-current portion	**–**	16,861

The Group's prepaid land lease payments represented land use right of a piece of land occupied by the Coal Upgrading Plant (note 19(b)).

21. Intangible Asset

	Mining right	
	2018 **HK$'000**	2017 HK$'000
Cost		
At 1 January	**93,662**	87,079
Exchange differences	**(4,844)**	6,583
At 31 December	**88,818**	93,662
Accumulated amortisation and impairment		
At 1 January	**58,445**	50,161
Amortisation for the year	**1,782**	1,851
Impairment for the year	**–**	2,477
Exchange differences	**(3,090)**	3,956
At 31 December	**57,137**	58,445
Carrying amount		
At 31 December	**31,681**	35,217

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

The average remaining amortisation period of the mining right is 18.52 years (2017: 19.52 years).

Intangible asset, together with the property, plant and equipment are allocated to the Coal CGU for impairment testing. The review led to the recognition of an impairment loss on intangible asset of HK$Nil (2017: approximately of HK$2,477,000) in profit or loss. Details please refer to note 19(d) to the consolidated financial statements.

22. Inventories

	2018 **HK$'000**	2017 HK$'000
Finished goods	**227**	18,295
Consumables	**6,023**	6,560
	6,250	24,855

23. Trade and Bills Receivables

	2018 HK$'000	2017 HK$'000
Trade receivables	**4,386**	4,619
Impairment loss on trade receivables	**(3,656)**	(2,593)
	730	2,026
Bills receivable	**1,253**	824
	1,983	2,850

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

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

	2018 HK$'000	2017 HK$'000
0 to 90 days	**5**	571
91 to 180 days	**6**	–
181 to 365 days	**719**	1,291
Over 365 days	**–**	164
	730	2,026

As 31 December 2018, an impairment provision of approximately HK$3,656,000 (2017: HK$2,593,000) was made for estimated irrecoverable trade receivables which relate to customers that were in financial difficulties. It was assessed that these receivables are expected to be irrecoverable.

23. Trade and Bills Receivables (Continued)

Reconciliation of impairment loss on trade receivables:

	2018 HK$'000	2017 HK$'000
At 1 January	**2,593**	2,411
Impact of initial application of HKFRS 9 (note 3(a)A(ii)(I))	**631**	–
Adjusted balance at 1 January	**3,224**	2,411
Impairment loss for the year	**622**	–
Exchange differences	**(190)**	182
At 31 December	**3,656**	2,593

As of 31 December 2018, trade receivables of approximately HK$730,000 (2017: HK$2,026,000) were past due but not impaired. These relate to several independent customers that have good track record with the Group. The ageing analysis of these trade receivables is as follows:

	2018 HK$'000	2017 HK$'000
Up to 90 days	**5**	571
91 to 180 days	**6**	–
181 to 365 days	**719**	1,291
Over 365 days	**–**	164
	730	2,026

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

24. Restricted Bank Deposits

The Group's restricted bank deposits of approximately HK$7,321,000 (2017: HK$7,697,000) and HK$Nil (2017: HK$3,040,000) are the deposits kept for the Coal Mining Business and Coal Upgrading Business respectively, which are required by related coal mining regulation and in the PRC regulatory restriction respectively. The aforesaid deposits are in RMB and at market interest rate.

25. Bank and Cash Balances

At 31 December 2018, the Group's bank and cash balances denominated in RMB and kept in the PRC amounted to approximately HK$29,535,000 (2017: HK$2,377,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations.

26. Accrued Charges and Other Payables

	2018 HK$'000	2017 HK$'000 (Restated)
Accrued charges	**34,439**	45,960
Other payables	**77,823**	138,268
Deferred revenue (note 31)	**–**	2,402
	112,262	186,630

27. Due from/(to) Non-Controlling Shareholder

The analysis of the carrying amount of the amount due from/(to) non-controlling shareholder is as follows:

	2018 HK$'000	2017 HK$'000
Current assets		
Other receivables (note)	**5,717**	–
Current liabilities		
Other payables (note)	**–**	(7,393)

Notes:

The other receivables are unsecured, 3.6% interest per annum and repayable on 19 June 2019. The amount has been fully settled in January 2019.

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

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

The directors estimate the carrying amount of the amounts due from non-controlling shareholder approximate its fair value as at 31 December 2018.

28. Other Loans

Other loans are repayable as follows:

	2018 HK$'000	2017 HK$'000
Within one year	**13,653**	–
In the second year	**–**	10,994
	13,653	10,994
Less: Amount due for settlement within 12 months (shown under current liabilities)	**(13,653)**	–
Amount due for settlement after 12 months	**–**	10,994

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

The average effective interest rate at 31 December 2018 was 6% (2017: 4.5%) per annum.

Other loans of approximately HK$6,000,000 (2017: HK$4,718,000) are arranged at fixed interest rates and expose the Group to fair value interest rate risk.

The directors estimate the carrying amounts of the other loans approximate their fair value as at 31 December 2018.

As at 31 December 2018, other loans included the loans from a former director, Mr. Xu (passed away on 12 June 2018), which are unsecured, interest bearing at 0% to 5% per annum and repayable on 31 December 2019 (note 29). For the non-interest bearing loan from a former director, the loan is recognised based on the effective interest method using discount rate of 6.95%. The principal amount of this loan is approximately HK$6,434,000.

29. Due to a Director

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

	Note	**2018 HK$'000**	2017 HK$'000
Non-current liabilities			
Loans	(a)	**–**	20,883

29. Due to a Director (Continued)

Notes:

(a) The loans from a director included interest payables as at 31 December 2017 of approximately HK$1,338,000, which were unsecured, interest bearing at 5% p.a. and repayable on 31 December 2019. The remaining balances are loans from a director and details are set out as below:

Fully repayable:	Interest rate	Security	**2018 HK$'000**	2017 HK$'000
31 December 2019	Nil	Nil	–	13,545
31 December 2019	5% p.a.	Nil	–	6,000
			–	19,545

As at 31 December 2017, loans from a director repayable after one year were included in non-current liabilities and are recognised based on the effective interest method using discount rate of 3.14%. The principal amounts of these loans from a director were approximately HK$14,410,000.

Loans from a director as at 31 December 2017 of approximately HK$6,000,000 were arranged at fixed rates, thus exposing the Group to fair value interest rate risk.

Following the passed away of Mr. Xu on 12 June 2018, the balances of the loans from a director transferred to "Other Loans" (note 28).

The carrying amounts of the loans from a director are denominated in the following currencies:

	Hong Kong dollar HK$'000	**RMB** HK$'000	**Total** HK$'000
2018			
Loans	–	–	–
2017			
Loans	7,338	13,545	20,883

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

30. Provision

	2018 HK$'000	2017 HK$'000
Balance at 1 January	**5,245**	–
Provision for the year	**–**	5,054
Exchange re-alignment	**(271)**	191
Balance at 31 December	**4,974**	5,245
Presented as:		
Current portion	**–**	–
Non-current portion	**4,974**	5,245
	4,974	5,245

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

31. Deferred Revenue

	2018 HK$'000	2017 HK$'000
At 1 January	**2,402**	2,233
Exchange difference	**(125)**	169
Disposal of subsidiaries (note 37(a))	**(2,277)**	–
Balance at 31 December	**–**	2,402
Presented as:		
Current portion (included in accrued charges and other payables)	**–**	2,402
Non-current portion	**–**	–
	–	2,402

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

32. Deferred Tax

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

	Decelerated tax depreciation HK$'000	Future deductible expenses/ (taxable amounts) HK$'000	Tax losses HK$'000	Other temporary difference HK$'000	Undistributed earnings of the PRC subsidiaries HK$'000	Tax on gain from intergroup debts transfer and interest income HK$'000	Total HK$'000
At 1 January 2017	4,945	1,974	6,094	–	(1,135)	(27,411)	(15,533)
Credit/(charge) to profit or loss for the year (note 12)	(3,392)	(1,974)	3,683	(673)	288	(347)	(2,415)
Exchange differences	245	–	600	50	–	(2,085)	(1,190)
At 31 December 2017 and 1 January 2018	**1,798**	**–**	**10,377**	**(623)**	**(847)**	**(29,843)**	**(19,138)**
Credit/(charge) to profit or loss for the year (note 12)	**2,982**	**–**	**(655)**	**602**	**278**	**14,060**	**17,267**
Exchange differences	**(206)**	**–**	**(512)**	**10**	**–**	**1,015**	**307**
At 31 December 2018	**4,574**	**–**	**9,210**	**(11)**	**(569)**	**(14,768)**	**(1,564)**

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

	2018 HK$'000	2017 HK$'000
Deferred tax assets	**13,784**	12,175
Deferred tax liabilities	**(15,348)**	(31,313)
	(1,564)	(19,138)

At the end of the reporting period the Group has unused tax losses of approximately HK$55,136,000 (2017: HK$50,409,000) available for offset against future profits. A deferred tax asset has been recognised in respect of approximately HK$36,840,000 (2017: HK$48,697,000) of such losses. No deferred tax asset has been recognised in respect of the remaining tax losses of approximately HK$18,296,000 (2017: HK$1,712,000) due to the unpredictability of future profit streams. These unrecognised tax losses are available for offsetting against future taxable profits in one to five years.

33. Share Capital

Ordinary shares:

	Authorised	
	No. of shares of HK$0.01 each	**HK$'000**
At 31 December 2017, 1 January 2018 and 31 December 2018	100,000,000,000	1,000,000

	Issued and fully paid		
	No. of shares of HK$0.50 each	**No. of shares of HK$0.01 each**	**HK$'000**
As at 1 January 2017	503,477,166	–	251,739
Capital reduction (note (i))	(503,477,166)	503,477,166	(246,704)
Issue of shares pursuant to a placing agreement (note (ii))	–	1,000,000,000	10,000
At 31 December 2017, 1 January 2018 and 31 December 2018	–	1,503,477,166	15,035

Notes:

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

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

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

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

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

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

33. Share Capital (Continued)

Capital management

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to recognise the return to the shareholders through the recognition of the debt and equity balance. Capital comprises all components of equity (i.e. share capital, accumulated losses and other reserves) except for non-controlling interests, which remains unchanged from prior year. As at 31 December 2018, total equity of approximately HK$153,568,000 (2017: HK$126,487,000(restated)) was managed by the Group as capital.

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

The only externally imposed capital requirement is that, for the Group to maintain its listing on the Stock Exchange, it has to have a public float of at least 25% of the shares. The Group receives a report from the share registrars quarterly on substantial share interests showing the non-public float and it demonstrates continuing compliance with the 25% limit throughout the year. At 31 December 2018, 89.61% (2017: 89.61%) of the shares were in public hands.

34. Share-Based Payments

Equity-settled share option scheme

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

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

Details of the specific categories of options are as follows:

	Date of grant	Vesting period	Exercise period	Exercise price HK$
Directors, employees and consultants	30 April 2015	Nil	30 April 2015 to 29 April 2025	0.71
Directors and employees	28 July 2015	Nil	28 July 2015 to 27 July 2025	0.53
Directors, employees and consultants	27 July 2018	Nil	27 July 2018 to 26 July 2028	0.51

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

34. Share-Based Payments (Continued)

Equity-settled share option scheme (Continued)

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

	2018		2017	
	Number of share options	**Weighted average exercise price HK$**	Number of share options	Weighted average exercise price HK$
Outstanding at 1 January	**9,900,000**	**0.587**	13,275,000	0.618
Granted during the year	**150,000,000**	**0.510**	–	–
Lapsed during the year	**–**	**–**	(3,375,000)	0.710
Outstanding at 31 December	**159,900,000**	**0.515**	9,900,000	0.587
Exercisable at 31 December	**159,900,000**	**0.515**	9,900,000	0.587

The options outstanding at the end of the year have a weighted average remaining contractual life of 9.22 years (2017: 7.46 years) and the exercise prices range from HK$0.51 to HK$0.71 (2017: HK$0.53 to HK$0.71). On 27 July 2018, 150,000,000 share options (2017: Nil) were granted during the year ended 31 December 2018.

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

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

35. Statement of Financial Position of the Company

	Note	As at 31 December 2018 HK$'000	2017 HK$'000
Non-current assets			
Investments in subsidiaries		**11**	21
Current assets			
Due from subsidiaries		**109,156**	153,113
Prepayment		**1,225**	1,071
Bank and cash balances		**56,277**	102,462
		166,658	256,646
Current liabilities			
Due to subsidiaries		**–**	198
Accrued charges and other payables		**1,986**	801
Other loans		**7,637**	–
		9,623	999
Net current assets		**157,035**	255,647
Total assets less current liabilities		**157,046**	255,668
Non-current liabilities			
Due to a director		**–**	7,338
NET ASSETS		**157,046**	248,330
Capital and reserves			
Share capital		**15,035**	15,035
Reserves	36(a)	**142,011**	233,295
TOTAL EQUITY		**157,046**	248,330

Approved by the Board of Directors on 29 March 2019 and is signed on its behalf by:

Ng Ying Kit
Director

Ren Hang
Director

36. Other Reserves

(a) Company

	Note	Share premium HK$'000	Capital reserve HK$'000	Distributive reserve HK$'000	Share-based payment reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017		–	3,917	–	4,305	(109,031)	(100,809)
Total comprehensive income for the year		–	–	–	–	(9,535)	(9,535)
Share placement	33(ii)	96,935	–	–	–	–	96,935
Capital reduction	33(i)	–	–	135,282	–	111,422	246,704
Share options lapsed		–	–	–	(1,232)	1,232	–
At 31 December 2017		**96,935**	**3,917**	**135,282**	**3,073**	**(5,912)**	**233,295**
At 1 January 2018		**96,935**	**3,917**	**135,282**	**3,073**	**(5,912)**	**233,295**
Total comprehensive income for the year		**–**	**–**	**–**	**–**	**(133,594)**	**(133,594)**
Recognition of shared-based payment	34	**–**	**–**	**–**	**42,310**	**–**	**42,310**
At 31 December 2018		**96,935**	**3,917**	**135,282**	**45,383**	**(139,506)**	**142,011**

(b) Nature and purpose of reserves

(i) Capital reserve

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

(ii) Distributable reserve

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

36. Other Reserves (Continued)

(b) Nature and purpose of reserves (Continued)

(iii) Future development fund

Pursuant to the relevant PRC regulations, the Group is required to set aside an amount to a future development fund at RMB9.5 (2017: RMB9.5) per tonne of raw coal mined. The fund can be used for future development of the coal mining operations, and is not available for distribution to shareholders. Upon incurring qualifying development expenditure, an equivalent amount is transferred from future development fund to retained earnings.

(iv) Safety fund

Pursuant to certain regulations issued by the State Administration of Work Safety of the PRC, the Group is required to set aside an amount to a safety fund at RMB15 (2017: RMB15) per tonne of raw coal mined. The fund can be used for improvements of safety at the mines, and is not available for distribution to shareholders. Upon incurring qualifying safety expenditure, an equivalent amount is transferred from safety fund to retained earnings.

(v) Foreign currency translation reserve

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

(vi) Share-based payment reserve

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

37. Notes to the Consolidated Statement of Cash Flows

(a) Disposal of subsidiaries

As referred to in note 16 to the consolidated financial statements, in December, the Group completed the Disposal and discontinued its Coal Upgrading Business.

Net assets at the date of disposal were as follows:

	2018 HK$'000
Property, plant and equipment	1,489
Construction in progress	32,913
Prepaid land lease payments	15,989
Inventories	79
Deposits, prepayments and other receivables	1,098
Restricted bank deposit	3
Bank and cash balances	308
Other borrowings	(11,700)
Deferred revenue	(2,277)
Accrued charges and other payables	(67,908)
Net liabilities disposed of	(30,006)
Non-controlling interests	7,095
Cumulative exchange loss in respect of the net liabilities of subsidiaries reclassified from equity to profit or loss	6,440
Direct cost to the disposal	431
Indemnity provision (note)	4,555
Gain on disposal of subsidiaries (note 16)	20,595
Consideration	9,110
Deferred cash consideration	(6,833)
Cash consideration received	2,277
Net cash inflow arising on disposal:	
Cash consideration received	2,277
Direct cost to the disposal	(431)
Cash and cash equivalents disposed of	(308)
	1,538

Note:

Pursuant to the sale and purchase agreement of Xilinhaote Guochuan, the Group has agreed to indemnify the Purchaser in an amount of RMB4 million (equivalent to approximately of HK$4,555,000) in the event that Xilinhaote Guochuan undergoes debts restructuring or files the application for bankruptcy to the relevant court in the PRC due to financial difficulties or insolvency within one year after completion. The directors consider it is probable that an outflow of economic benefits will be required to settle the obligation and made the indemnity provision of approximately HK$4,555,000 and included in accrued charges and other payables.

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

(b) Reconciliation of liabilities arising from financing activities

	Due to non-controlling shareholder (note 27) HK$'000	Other loans (note 28) HK$'000	Due to a director (note 29) HK$'000
At 1 January 2017	6,874	34,378	20,230
Change from cash flows:			
Proceeds from new loans	–	1,904	–
Repayment of loans	–	(26,302)	(1,000)
Total changes from financing cash flows	–	(24,398)	(1,000)
Other changes:			
Exchange adjustments	519	559	939
Interest expenses	–	455	714
Total other changes	519	1,014	1,653
At 31 December 2017	7,393	10,994	20,883
At 1 January 2018	**7,393**	**10,994**	**20,883**
Change from cash flows:			
Proceeds from new loans	**–**	**828**	**–**
Repayment of loans	**(7,285)**	**(7,513)**	**–**
Total changes from financing cash flows	**(7,285)**	**(6,685)**	**–**
Other changes:			
Disposal of subsidiaries (note 37(a))	**–**	**(11,700)**	**–**
Reclassification	**–**	**21,004**	**(21,004)**
Exchange adjustments	**(108)**	**(854)**	**(199)**
Interest expenses	**–**	**894**	**320**
Total other changes	**(108)**	**9,344**	**(20,883)**
At 31 December 2018	**–**	**13,653**	**–**

38. Contingent Liabilities

Based on relevant coal mining regulations in the PRC (中華人民共和國國務院令第446號《國務院關於預防煤礦生產安全事故的特別規定》及發改電[2014] 226號《關於遏制煤礦超能力生產規範企業生產行為的通知》), the over-production of Inner Mongolia Jinyuanli during the year ended 31 December 2016 may result in a maximum penalty of RMB2,000,000 (equivalent to HK$2,277,000) and, consideration of possible to bring its operations to a halt.

Inner Mongolia Jinyuanli obtained the legal opinion from an independent legal advisor that it is very unlikely that Inner Mongolia Jinyuanli will be penalised or suspended the operations and it could maintain its operations of current production capacity. The directors relied on the above mentioned legal opinion to conduct the coal mining operations. Up to the date of this annual report, Inner Mongolia Jinyuanli does not receive any penalty notice nor any order to suspend its operation from government authorities concerning the above matter. Nevertheless, directors consider that the Group has a potential contingent liability arisen from the over-production of coal with a maximum amount of HK$2,277,000 as at 31 December 2018 (2017: HK$2,402,000).

39. Capital Commitments

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

	2018 **HK$'000**	2017 HK$'000 (Restated)
Property, plant and equipment	–	24,809

40. Lease Commitments

At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**2,559**	1,409
In the second to fifth years inclusive	**853**	1,351
	3,412	2,760

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

41. Related Party Transactions

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

	2018 **HK$'000**	2017 HK$'000
Loan interest paid to a director	**134**	316

Compensation of key management personnel

The key management personnel of the Company comprises all directors, details of their remuneration are disclosed in note 15 to the consolidated financial statements.

42. Principal Subsidiaries

Particulars of the principal subsidiaries as at 31 December 2018 are as follow:

Name	Place of registration and operation	Paid up capital	Percentage of ownership interest/ voting power/ profit sharing	Principal activities
Inner Mongolia Jinyuanli [1]	The PRC	USD45,000,000	56.2%	Coal mining
Jilin Province De Feng Commodity Economics and Trading Co., Limited ("**Jilin De Feng**") [1]	The PRC	RMB20,000,000	51%	Inactive
Gouden Techniek Company Limited	Hong Kong	HK$10,000	100%	Investment holding
Grand Ocean Group Management Limited	Hong Kong	HK$10,000	100%	Provision of management services

(1) Sino-foreign equity joint venture.

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

42. Principal Subsidiaries (Continued)

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

Name	Jilin De Feng		Inner Mongolia Jinyuanli	
	2018	2017	**2018**	2017
Principal place of business/country of incorporation	**PRC/PRC**		**PRC/PRC**	
% of ownership interests/voting rights held by NCI	**49%/49%**	49%/49%	**43.8%/43.8%**	43.8%/43.8%
	HK$'000	HK$'000	**HK$'000**	HK$'000
At 31 December:				
Non-current assets	**370**	493	**176,110**	201,318
Current assets	**44,841**	47,738	**53,791**	46,484
Non-current liabilities	**–**	–	**(4,986)**	(5,868)
Current liabilities	**(142)**	(151)	**(162,322)**	(208,180)
Net assets	**45,069**	48,080	**62,593**	33,754
Accumulated NCI	**22,076**	23,551	**27,695**	15,063
Year ended 31 December:				
Revenue	**–**	–	**194,109**	111,842
(Loss)/profit	**(545)**	(565)	**32,403**	(34,344)
Total comprehensive (loss)/income	**(3,011)**	2,833	**29,471**	(30,766)
Total comprehensive (loss)/income allocated to NCI	**(1,475)**	1,388	**12,908**	(13,476)
Dividends paid to NCI	**–**	–	**–**	–
Net cash (used in)/generated from operating activities	**(444)**	(460)	**55,596**	(40,999)
Net cash used in investing activities	**–**	–	**(11,196)**	(3,324)
Net cash generated from/(used in) financing activities	**1,538**	903	**(19,489)**	(3,075)
Net increase/(decrease) in cash and cash equivalents	**1,094**	443	**24,911**	(47,398)