



意科控股

eFORCE HOLDINGS LIMITED

(INCORPORATED IN BERMUDA WITH LIMITED LIABILITY)

(STOCK CODE : 943)

Annual Report
2018



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CORPORATE INFORMATION

DIRECTORS

Executive Directors

Mr. Leung Chung Shan (*Chairman*)
Mr. Tam Lup Wai, Franky (*Deputy Chairman*)
Mr. Liu Liyang (*CEO*)
Mr. Au Yeung Yiu Chung
Mr. Chan Tat Ming, Thomas

Independent Non-executive Directors

Mr. Hau Chi Kit
Mr. Leung Chi Hung
Mr. Li Hon Kuen

AUDIT COMMITTEE

Mr. Li Hon Kuen (*Chairman*)
Mr. Hau Chi Kit
Mr. Leung Chi Hung

REMUNERATION COMMITTEE

Mr. Leung Chi Hung (*Chairman*)
Mr. Hau Chi Kit
Mr. Li Hon Kuen
Mr. Liu Liyang
Mr. Tam Lup Wai

NOMINATION COMMITTEE

Mr. Leung Chung Shan (*Chairman*)
Mr. Hau Chi Kit
Mr. Leung Chi Hung
Mr. Li Hon Kuen
Mr. Liu Liyang
Mr. Tam Lup Wai, Franky

COMPANY SECRETARY

Mr. Chan Tsz Leung

AUDITOR

ZHONGHUI ANDA CPA Limited
Unit 701-3 & 8, Citicorp Centre,
18 Whitfield Road,
Causeway Bay,
Hong Kong

PRINCIPAL BANKERS

Hang Seng Bank Limited
DBS Bank (Hong Kong) Limited

PRINCIPAL REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building,
68 Pitts Bay Road,
Pembroke HM 08,
Bermuda

BRANCH REGISTRAR

Union Registrars Limited
Suite 3301-4, 33/F,
Two Chinachem Exchange Square,
338 King's Road, North Point,
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street,
Hamilton HM11,
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS

Suite 3008, Man Yee Building,
68 Des Voeux Road Central,
Central,
Hong Kong

STOCK CODE

943

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Mr. Leung Chung Shan (“Mr. Leung”)

(Chairman)

Mr. Leung, aged 58, was appointed as an executive Director and the chairman of both the Board and the Nomination Committee of the Company on 18 January 2018. Mr. Leung has extensive experience and business interests in the People’s Republic of China (the “PRC”) in the areas of infrastructure development, real estate properties and other areas. Mr. Leung commenced his investments in toll road projects in the early 1990s and began investing in property development in the PRC and Singapore in 1996. Mr. Leung was also the former chairman of the Board and an executive Director during the period between 1 February 2000 and 3 November 2008.

Mr. Tam Lup Wai, Franky (“Mr. Tam”)

(Deputy Chairman)

Mr. Tam, aged 70, was appointed as executive Director of the Company on 17 December 2001 and the chairman of the Board of the Company on 21 July 2011. He was also appointed as a member of the Remuneration Committee of the Company on 3 July 2007 and the chairman of the Nomination Committee of the Company on 29 March 2012. Mr. Tam was re-designated as the deputy chairman of the Board and ceased to be the chairman of the Nomination Committee with effect from 18 January 2018. Mr. Tam holds a BA in Applied Mathematics from the University of California at Berkeley, USA. He has diversified management experiences in the fields of property, retail and technology. He also specializes in formulating and executing business strategies for companies and has experience in the investment of technology start-up. He was previously an administration director of a conglomerate comprises four listed companies in Hong Kong and directly oversaw the administration of the group and responsible in managing several subsidiaries’ operations, including properties acquisition, strategic investments and hotel start-up project. Mr. Tam also served as executive director of a Hong Kong publicly listed fashion retail chain store with over 200 outlets in Hong Kong and China and was instrumental in setting up the franchise operation in the PRC before joining the Company in 2001.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Liu Liyang (“Mr. Liu”)

(CEO)

Mr. Liu, aged 58, was appointed as executive Director, Deputy Chairman of the Board and the Chief Executive Officer (“CEO”) and a member of the remuneration committee of the Company on 19 August 2010. He was further appointed as a member of the nomination committee of the Company on 29 March 2012. He ceased to be the deputy chairman of Board with effect on 18 January 2018. Mr. Liu has over 17 years of experience in the investment banking industry. Before joining the Company, he was the co-head of the China Investment Banking of Nomura International (HK) Limited. He had also worked in the Merrill Lynch (Asia Pacific) Limited, China International Capital Corporation Limited and Morgan Stanley & Co. Inc. Mr. Liu holds an MBA degree from Columbia University. From 13 October 2015 to 24 October 2018, Mr. Liu was an executive director of Munsun Capital Group Limited (formerly known as China Precious Metal Resources Holdings Co., Limited) (stock code: 1194) which is a company listed on the Main Board of The Stock Exchange of the Hong Kong Limited (the “Stock Exchange”). He was appointed as the chairman of the board, a member of the remuneration committee and the chairman of each of the executive committee, nomination committee and corporate governance committee of Munsun Capital Group Limited at different times during his tenure with them. Mr. Liu currently is an independent non-executive director of Beautiful China Holdings Company Limited (stock code: 706), which is a company listed on the Main Board of the Stock Exchange.

Mr. Au Yeung Yiu Chung (“Mr. Au Yeung”)

Mr. Au Yeung Yiu Chung, aged 37, was appointed as executive Director on 11 June 2014. Mr. Au Yeung has over 10 years of experience in financial industry. Mr. Au Yeung was graduated from the Hong Kong Polytechnic University with a Bachelor of Applied Biology with Biotechnology. Mr. Au Yeung also holds a Master of Business Administration degree from the University of Wales, UK and a Master of Corporate Governance degree from The Open University of Hong Kong.

Mr. Au Yeung is an associate member of The Hong Kong Institute of Chartered Secretaries and The Institute of Chartered Secretaries and Administrators in the United Kingdom.

Mr. Au Yeung is an International Certified Valuation Specialist holder and a Certified M&A Dealmaker issued by the China Mergers & Acquisitions Association and the Museum of Mergers and Acquisitions in the PRC. From 10 March 2012 to 1 April 2015, Mr. Au Yeung was an executive director of TLT Lottotainment Group Limited (now known as Evershine Group Holdings Limited) (stock code: 8022) which is a company listed on the GEM of the Stock Exchange.

Mr. Chan Tat Ming, Thomas (“Mr. Chan”)

Mr. Chan, aged 53, was appointed as executive Director of the Company on 7 March 2014. Mr. Chan was graduated from York University, Toronto, Canada, with a Business Administration Studies degree. Mr. Chan has over 20 years of experience in administration and operational management in international trade business and also on production process facility in the PRC.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Hau Chi Kit (“Mr. Hau”)

Mr. Hau, aged 47, was appointed as an independent non-executive Director and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company on 7 March 2014. Mr. Hau was a barrister-at-law in private practice in Hong Kong from 2001 to 2008 and is currently a solicitor in private practice. Prior to becoming a barrister, Mr. Hau worked at the Securities and Futures Commission. He was an independent non-executive director of CNC Holdings Limited (stock Code: 8356) from May 2011 to May 2015 and Celebrate International Holdings Limited (stock Code: 8212) from May to November 2015, both of which are companies listed on the Growth Enterprise Market (“GEM”) of the Stock Exchange. Mr. Hau currently is also an independent non-executive director of Xinyang Maojian Group Limited (formerly known as China Zenith Chemical Group Limited) (stock code: 362), hmvod Limited (formerly known as Trillion Grand Corporate Company Limited) (stock code: 8103) and Code Agriculture (Holdings) Limited (stock code: 8153) all of which are companies listed on the Main Board or the GEM of the Stock Exchange.

Mr. Leung Chi Hung (“Mr. Leung Chi Hung”)

Mr. Leung Chi Hung, aged 63, was appointed as an independent non-executive Director of the Company and a member of each of the audit committee, the remuneration committee and the nomination committee of the Company on 13 December 2013. Mr. Leung Chi Hung was further appointed as the chairman of the remuneration committee on 4 June 2018. Mr. Leung Chi Hung commenced his accountancy professional training since 1976 and is a fellow of both the Association of Chartered Certified Accountants and the Hong Kong Institute of Certified Public Accountants. Mr. Leung Chi Hung is also a fellow of The Taxation Institute of Hong Kong and a Certified Tax Adviser and a member of the Society of Registered Financial Planners in Hong Kong. Mr. Leung Chi Hung is a Certified Public Accountant (Practising) in Hong Kong and a director of Philip Leung & Co. Limited (CPA). Mr. Leung Chi Hung currently is also an independent non-executive Director of Daido Group Limited (stock code: 544), Finet Group Limited (stock code: 8317), REF Holdings Limited (stock code: 1631) and WT Group Holdings Limited (stock code: 8422), all of which are companies listed on the Stock Exchange.

Mr. Li Hon Kuen (“Mr. Li”)

Mr. Li, aged 52, was appointed as an independent non-executive Director, the chairman of the audit committee and a member of each of the remuneration committee and nomination committee of the Company on 19 July 2013. Mr. Li is a Certified Public Accountant (Practising) in Hong Kong with general assurance experience in clients operating in a variety of industries, including textile, construction, property development, freight forwarding, golf club, jewelry manufacturing and trading, application software development and installation, website design and development, manufacturing and ATM operation business. Moreover, Mr. Li has extensive experience in public listings and due diligence in Hong Kong. Mr. Li had worked in Deloitte and as senior audit manager in RSM Nelson Wheeler before setting up Alfred H.K. Li & Co., CPA, in 2013.

BIOGRAPHICAL INFORMATION OF DIRECTORS AND SENIOR MANAGEMENT

SENIOR MANAGEMENT

Mr. Sugahara Toshio (“Mr. Sugahara”)

Mr. Sugahara, aged 55, joined the Group in 2007. Mr. Sugahara is the General Manager of Fairform Manufacturing Limited, a wholly-owned subsidiary of the Group, and is responsible for the overall production management and quality control of the Group’s manufacturing and sales of health and household products. Mr. Sugahara has obtained a Bachelor Degree in Mechanical Engineering from the University of Brighton (UK) and a Master Degree of Business Administration from the University of South Australia. He is a member of the Institution of Engineering and Technology (UK) and has extensive working experience in project engineering, product research and development and production management.

Mr. Wong Sze Yat, Robert (“Mr. Wong”)

Mr. Wong, aged 55, joined the Group in 1998. Mr. Wong is the Marketing Director of Fairform Manufacturing Limited and is responsible for sales and marketing function of the Group’s manufacturing and sales of health and household products. Mr. Wong has a Diploma in Business Studies from the Salford Technology College (UK). Mr. Wong has over 20 years of working experience in marketing small household electrical appliances and household products.

Mr. Chan Tsz Leung (“Mr. Chan Tsz Leung”)

Mr. Chan Tsz Leung, aged 52, is the Company Secretary of the Company. Mr. Chan Tsz Leung is a member of CPA Australia. Mr. Chan Tsz Leung holds a Bachelor Degree in Commerce from the Murdoch University, Western Australia, Australia. Mr. Chan Tsz Leung joined the Group in 2004 as Accountant and had working experience in Hong Kong, Singapore and the PRC.

CHAIRMAN'S STATEMENT

On behalf of the Board of Directors (the “Board”) of eForce Holdings Limited (the “Company”), I am pleased to present the annual report of the Company and its subsidiaries (collectively referred to as the “Group”) for the financial year ended 31 December 2018.

REVIEW AND PROSPECT

Overall revenue of the Group for the financial year ended 31 December 2018 was increased by HK\$100.0 million mainly due to the increase of revenue of the Group’s manufacturing business by HK\$92.2 million. The consolidated profit of the Group for the financial year ended 31 December 2018 was HK\$54.9 million as compared to a loss of HK\$44.4 million in 2017 mainly due to the recognition of a gain on bargain purchase of HK\$111.7 million which was related to the acquisition of the 35% equity interest in Pacific Memory Sdn Bhd (“Pacific Memory”) in March 2018. This gain on the bargain purchase, nevertheless was a once-off non-cash adjustment which has no impact on the Group’s operating cash flow. If the said gain on bargain purchase had not been recognized, the Group would have recorded a loss of HK\$56.8 million instead of a profit of HK\$54.9 million for 2018. More details our financial performance for financial year ended 31 December 2018 can be found within the Management Discussion and Analysis and Financial Statement sections in this annual report.

It has been an important year for the strategic development of the Group, apart from the completion of the acquisition of 35% equity interest in Pacific Memory, we have entered into an acquisition agreement in September 2018 to acquire a company principally engaged in primary land development projects in the Peoples’ Republic of China (the “PRC”). This acquisition was subsequently completed in January 2019.

The Group has long been underperforming. We have been trying to identify suitable investment opportunities to diversify and enhance long-term corporate value. We believe the above mentioned acquisitions have positioned us to leverage on the potential of both the property market in Malaysia and the PRC.

ACKNOWLEDGEMENTS

On behalf of the Board, I would like to take this opportunity to express our utmost appreciation of the continuing supports of our Shareholders, business partners and parties from various fields, and also of the contribution and dedication of our management and dedicated staffs in previous year.

Leung Chung Shan

Chairman and Executive Director

29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW AND OUTLOOK

Results for the year

Revenue of the Group for the year ended 31 December 2018 amounted to HK\$299.1 million, which represented an increase of approximately 50% as compared to HK\$199.2 million in 2017.

The consolidated profit of the Group for the year ended 31 December 2018 amounted to HK\$54.9 million. This represented an increase of approximately HK\$99.3 million as compared to the loss of HK\$44.4 million in 2017.

Following is the review of the principal activities of the Group in 2018 and outlook of the Group's business in 2019.

Manufacture and sale of healthcare and household products

As mentioned in our Interim Report 2018, the revenue of the Group's manufacturing business has increased by 42% in the first half of 2018 when compared to the corresponding period in 2017 and such trend has continued in the second half of 2018. Full year revenue for 2018 was increased by HK\$92.2 million or by approximately 61% to HK\$243.6 million as compared to HK\$151.4 million in 2017. Sales volume increased in all locations except France and Japan which had a slight decrease of approximately HK\$2.9 million and HK\$1.1 million respectively. Sales to the United States of America (the "USA") was increased by approximately HK\$43.4 million mainly due to customers launched new product series in 2018 and US customers in the second half of 2018 pulled ahead their orders to avoid the threat of higher tariffs. Sales to the People's Republic of China (the "PRC") was increased by approximately HK\$30.7 million mainly due to the expansion of the domestic market in oral health care products by both local and foreign brands. Sales to HK and others was increased by approximately HK\$20.2 million mainly due to a long term customer had shifted the production of one of its existing product lines to us temporarily in 2018.

Gross profit margin increased from approximately 19.9% in 2017 to approximately 27.6% in 2018 mainly due to increase sales for products with high gross profit margin and improvement in process and enhancement in automation. Gross profit increased by HK\$37.1 million to HK\$67.2 million in 2018 as compared to HK\$30.1 million in 2017. The increase in gross profit was attributable to the abovementioned increased in revenue and gross profit margin. Overall, the Group's manufacturing business recorded a segmental profit of HK\$20.4 million in 2018 as compared to a loss of HK\$11.9 million in 2017.

Despite sales of the manufacturing business has increased noticeably in 2018, the Company is cautious about the outlook of the global consumer market in 2019 with trade tensions between the USA and the PRC continue. On the other hand, with rising labour cost and profit margins under constant pressure, the Company will continue focusing to improve productivity and efficiency.

MANAGEMENT DISCUSSION AND ANALYSIS

Coal mining business

In 2018 the Group did not have any production at the coal mine project in Central Kalimantan Province in the Republic of Indonesia (“PT Bara Mine”) and therefore no revenue was recognized for the coal mining business in 2018.

As disclosed in the Company’s announcement dated 6 July 2018, PT Bara Utama Persada Raya, a non-wholly owned subsidiary of the Company which holds license of a coal mine in the Central Kalimantan Province in the Republic of Indonesia (“PT Bara Mine”), has cooperated with PT Sinarjaya Mulia Kun (“PT SMK”), a party independent of the Company and its connected persons, to conduct mining activities at the PT Bara Mine. The pre-mining construction works were commenced in early July 2018 and completed in November 2018. After the completion of the pre-mining construction works, PT SMK has been experiencing delay in the negotiation process with the local landlord on the use of its access road and jetty (where coal is unloaded for shipment to the customers). The negotiation, which couple with the drop of coal prices in recent months, has further held back the coal production. As at the date of this report, there was still no coal production in the PT Bara Mine. We are closely monitoring the situation and will inform shareholders of the Company of any further development of the PT Bara Mine as and when appropriate.

According to the agreement with PT SMK, all contracts for arrangement of infrastructure building and equipment purchasing and hiring will be entered or committed by PT SMK, therefore no capital expenditure was incurred by the Company’s coal mining business in 2018.

Operating expenses related to the Group’s mining business charged to statement of profit or loss and other comprehensive income were mainly administrative expenses and amounted approximately HK\$0.9 million in 2018 as compared to HK\$0.9 million in 2017.

The coal resource estimates as at 31 December 2018 were as follows:

	Coal Resource Estimate			
	<i>(in thousand tonnes)</i>			
	As at 31 December 2017	As at 31 December 2018	Change in %	Reason of change
JORC Category				
Measured	8,705	8,705	Nil	N/A
Indicated	11,537	11,537	Nil	N/A
Inferred	6,097	6,097	Nil	N/A
Total	<u>26,339</u>	<u>26,339</u>		

MANAGEMENT DISCUSSION AND ANALYSIS

The above coal resources estimate of the PT Bara Mine as at 31 December 2018 were the same as they were previously disclosed in the report dated 2 June 2011 (the “2011 Report”) prepared by Roma Oil and Mining Associates Limited (“Roma”) under the JORC Code and there was no material change to the status of the project since then except for, as mentioned above, some pre-mining construction works that were completed in November 2018.

Review of fair value of exploration and evaluation assets

The Company had engaged Greater China Appraisal Limited (“GCA”) to assist the management to determine the fair value (the “Valuation 1-2018”) and the impairment, if any, of the PT Bara Mine for the year ended 31 December 2018. GCA, after considering the different approaches of valuation of asset, had selected to use the Comparable Transaction Method under the market approach in the Valuation 2018. The same methodology and method were selected and used in the valuation of the PT Bara Mine since 2013.

An underlying assumption when using the Comparable Transaction Method is that the terms negotiated and agreed are linked to the coal price at the time of the transaction. Therefore, to compare any project transaction to the Mineral Asset as at the valuation date, it is necessary to establish what the likely transaction value would have been if it had occurred at that date. GCA has done this by adjusting the actual transaction parameters at the date of the transaction to the change in coal prices by multiplying the acquisition parameters by the following ‘normalising’ factor:

US\$77.23/tonne as at 31 December 2018 (US\$67.46/tonne as at 31 December 2017) divided by the US\$ coal price/tonne at the date of the transaction of the comparable project.

MANAGEMENT DISCUSSION AND ANALYSIS

The selected comparable transactions of coal projects in Indonesia in the last 5 years are set forth in the table below:

Table 1 – Details of comparable transactions

Transaction Date	Acquirer Name	Target Name	Percentage (%)	M&I Resources (million tonne)	Consideration (USD million)
10 Dec 2017	Indika Energy Tbk PT	Samtan Co Ltd	45%	2,189.75	677.50
18 Jul 2016	Geo Energy Resources Ltd	PT Tanah Bumbu Resources	99%	55.50	90.00
26 Dec 2015	Geo Energy Resources Ltd	Borneo International Pte Ltd	34%	52.50	25.00
3 Jul 2014	China Investment Corp	Bumi Resources Tbk PT	19%	9,307.00	950.00
26 Feb 2014	Perusahaan Palembang Investama PT	Adaro Energy Tbk PT	35%	75.2	25.13
28 Feb 2013	Altura Mining Limited	PT Delta Ultima Coal	33%	37.94	25.00
29 Jun 2012	LG International Corp	Ganda Alam Makmur PT	60%	275.00	212.58

Source: Bloomberg

MANAGEMENT DISCUSSION AND ANALYSIS

The relevant coal prices used for the comparable transactions are shown in table below:

Table 2 – Coal Prices utilised in the comparable valuations

Transaction Date	Event	Coal Price at Transaction Date (USD/tonne)	Price Adjustment Factor	Adjusted Consideration (USD million)
31 Dec 2018	GCA Effective Valuation Date for the Mineral Asset	77.23		
10 Dec 2017	Indika Energy Tbk PT acquired Samtan Co Ltd.	73.39	1.05	1,584.40
18 Jul 2016	Geo Energy Resources Ltd acquired PT Tanah Bumbu Resources	43.74	1.77	161.96
26 Dec 2015	Geo Energy Resources Ltd acquired Borneo International Pte Ltd	44.10	1.75	130.12
3 Jul 2014	China Investment Corp acquired Bumi Resources Tbk PT	57.73	1.34	6,689.07
26 Feb 2014	Perusahaan Palembang Investama PT acquired Adaro Energy Tbk PT	63.48	1.22	87.35
28 Feb 2013	Altura Mining Limited acquired PT Delta Ultima Coal	69.17	1.12	83.74
29 Jun 2012	LG International Corp acquired Ganda Alam Makmur PT	75.14	1.03	364.16

* Using Indonesian Government's Benchmark Thermal Coal Index Price as reference.

MANAGEMENT DISCUSSION AND ANALYSIS

To utilize the comparable transactions above in valuing the Mineral Asset, the in-ground coal endowment of the PT Bara Mine is established as follows:

Table 3 – Attributable Coal Resources of Mineral Asset

Resources Category	Coal Resources Tonnes (Million Tonne)	GCA Factor	Factorised Tonnes (Million Tonne)
Measured	8.71	100%	8.71
Indicated	11.54	80%	9.23
Inferred	6.10	0%	–
Total	26.35		17.94

In accordance with the VALMIN Code (2015), GCA is required to precisely study the procedure on how resource estimation was done. Based on the Technical Report and Resource Statement of the Project prepared by SRK dated September 2010, there is no mention of whether outcrops of each seams have been adjusted in the process of resource estimation and the depth of each seam used for resource estimation remains unknown. Given the uncertainties, an estimated 20% discount on the Indicated Resources has been applied.

The following table summarized the effect of changes in assumptions/parameters and reconciled the fair value change in 2018:

Table 4 – Reconciliation of fair value change

Item	2017	2018	Effect on Fair Value	Fair Value (HK\$ million)
As at 31 Dec 2017				199.28
Change in prevailing coal price (US\$/tonne)	67.46	77.23	Increase	28.94
Market transaction update	1.44	1.64	Decrease	(0.06)
Change in exchange rate (US\$: HK\$)	7.8140	7.8319	Increase	0.53
Valuation adjustment on the Indicated Resources	20%	20%	Unchange	–
As at 31 Dec 2018				228.69

MANAGEMENT DISCUSSION AND ANALYSIS

As shown in the above tables, the assumptions changes in 2018 valuation were: (1) prevailing coal price; (2) market transaction reference; and (3) exchange rate. The primary change in valuation assumption would be the increase in prevailing coal price (which is the dominant factor for the increase in valuation) and this resulted the fair value increased in 2018. The increase in prevailing coal price and the change in exchange rate were mainly affected by the global economy and market environment. For the market transaction applied, there were no recent comparable transactions with available information in the market and applied in the valuation.

Based on the Valuation 2018, the recoverable amount of the exploration and evaluation assets exceeded the carrying amount as at 31 December 2018. Accordingly, a reversal of impairment losses of HK\$29.4 million was recognized for the year ended 31 December 2018 (2017: HK\$27.3 million).

Production and sale of organic agricultural and fertilizers products

Revenue of the organic agricultural and fertilizers business increased by approximately HK\$5.3 million or 16% to approximately HK\$39.4 million as compared to approximately HK\$34.1 million in 2017. The increase was mainly due to participation in soil improvement projects, where microbial fertilizer was widely used, in Shanxi Province which covered an aggregate land area of 20,000 mu. Gross profit margin decreased slightly from approximately 60.3% in 2017 to approximately 58.8% mainly due to higher material cost. As a result of the foregoing, the gross profit increased by approximately HK\$2.6 million or 13% to approximately HK\$23.2 million as compared to HK\$20.6 million in 2017.

For the period under review, the segment recorded a profit of approximately HK\$6.7 million as compared to a profit of approximately HK\$8.6 million for 2017, which was mainly due to the following:

- (i) an increase in selling and distribution expenses of approximately HK\$0.6 million mainly due to higher staff cost;
- (ii) an increase in administrative expenses of approximately HK\$2.3 million mainly due to higher staff cost and higher depreciation cost; and
- (iii) a decrease of other income of approximately HK\$3.1 million which was mainly due to decrease in reversal of impairment of trade receivables and rental income.

With a view to improve the financial performance of the organic agricultural and fertilizers business, the Group has launched new business plan and cooperated with the local government of the PRC to participate in soil improvement projects since late 2017 and in 2018 the Group has participated in over 15 soil improvement projects covering more than 20,000 mu farmland. In 2019, soil improvement projects will be the main business drivers of the Group's organic agricultural and fertilizers business.

Review of recoverable amount of cash generating unit of trading of agricultural and fertilizers products

For the purpose of the impairment testing, the recoverable amounts of the cash generating unit of trading of agricultural and fertilizers products ("CGU") was determined from value in use ("VIU") of the CGU performed by an independent firm of professional valuers using the income approach.

MANAGEMENT DISCUSSION AND ANALYSIS

The Company had engaged an independent firm of professional valuers, Greater China Appraisal Limited (“GCA”) to assist the management to determine the VIU of the CGU and the fair value of the unpatented technology (“UT”) (the “Valuation 2-2018”) as at 31 December 2018.

The income approach was adopted to arrive at the VIU of the CGU and the fair value of UT. The same approach was used in 2017 in these valuations.

The VIU of CGU is determined based on the discounted cash flow (“DCF”) of the financial budgets of the CGU for the next 5-year period. The key assumptions used in the calculations are summarized as follows:

	2019	2020	2021	2022	2023
Budgeted growth rate	10.6%	20.0%	20.0%	20.0%	10.0%
Gross profit margin	68%	68%	68%	68%	68%
Pre-tax discount rate	18.39%				
Terminal growth rate	3%				

Budgeted growth rate

The budgeted growth rate was prepared by the management of the CGU based on their past experience and future business plans. As above-mentioned, we have cooperated with the local government of the PRC to participate in soil improvement projects since late 2017 and in 2018 we have participated in various soil improvement projects covering more than 20,000 mu farmland. As the central government has already set goals for rural revitalization, soil improvement would be one of the focus of many local governments and more projects would be rolled out in the coming years. In this regard, the management expected the higher growth rate of 20% from 2020-2022 will be driven by these kind of projects.

Budgeted gross profit margin

Management determined budgeted gross profit margin based on past performance of the CGU as well as their expectations of the market development. From 2015 to 2018, the gross profit margin of the CGU was ranged from around 59%-68%. Furthermore, as we participate in more soil improvement projects which historically have higher gross profit margin because of the required expertise, the overall gross profit margin in 2019 will be improved as compared to mere production and sale of organic agricultural and fertilizers products.

Pre-tax discount rate

Management estimates discount rates using pre-tax rates that reflect current market assessments of the time value of money and the risks specific of the CGU.

Terminal growth rate

Cash flows forecasts beyond the five year period are extrapolated using a terminal growth rate in association with expected annual inflation rate.

As at the end of the reporting period, the management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

MANAGEMENT DISCUSSION AND ANALYSIS

As a result of the above review, impairment losses of intangible asset, certain property, plant and equipment and goodwill were recognized for the financial year ended 31 December 2018. For details of these losses, please refer to Notes 19, 20 and 21 to the consolidated financial statements.

Money lending business

The segmental revenue being interest income from the Group's money lending business in 2018 was HK\$16.1 million (2017: HK\$13.7 million). Depending on the nature and terms and conditions of each loan that was made, interest rate ranged from 10% per annum to 24% per annum during the year under review. Total loans receivables as at 31 December 2018 were HK\$121 million (31 December 2017: HK\$99 million) after reviewing the risk of default of individual borrowers and making an impairment allowances of HK\$3 million (2017: Nil).

Other gains and losses

The Group recorded a profit of approximately HK\$54.9 million as compared to a loss of approximately HK\$44.4 million in the corresponding period in 2017 which was mainly due to the combined effects of the following reasons:

- (i) The abovementioned reasons for increase or decrease in profit or loss of different reportable segments;
- (ii) Other income decreased by approximately HK\$3.1 million mainly due to no interest income was recognised from the convertible bonds held by the Company in 2018 (2017: HK\$2.0 million) issued by Union Asia Enterprise Holdings Ltd. (GEM Stock Code: 8173) (the "Bond Issuer") as trading in the shares of the Bond Issuer has been suspended on the Stock Exchange since March 2017. The Bond Issuer has submitted documents in relation to a creditors schemes to Hong Kong Court and the Grand Court on 18 July 2018. As disclosed in the Bond Issuer's announcement dated 28 February 2019, the Bond Issuer was in the process of addressing the relevant enquiries raised by the regulators and in the process of preparing the financial information for the new listing application submitted in January 2019, and the regulators are in the process of reviewing it. Against this backdrop, it is prudent for the Company to stop recognising further interest income from the convertible bonds;
- (iii) Administrative expenses increased by approximately HK\$25.4 million mainly due to:
 - (a) a reversal of interest income of approximately HK\$3.0 million from convertible bonds held by the Company which was recognised as income in previous financial years due to the same reason mentioned in (ii) above; and
 - (b) an increase in legal and professional fees of HK\$12.0 million mainly due to more corporate exercises took place in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

- (iv) Net loss of HK\$15.6 million (2017: net gain of HK\$1.6 million) on fair value changes on financial assets at fair value through profit or loss was mainly due to a fair value loss of HK\$15.6 million (2017: a fair value gain of HK\$1.6 million) on convertible bonds held by the Company mentioned in (ii) above; and
- (v) A gain on bargain purchase of HK\$111.7 million through profit or loss relating to the acquisition (the “Acquisition”) of 35% equity interest in and the shareholders’ loans to Pacific Memory Sdn Bhd (“Pacific Memory”) during the period under review. The gain was derived from the excess of the Company’s share of the net fair value of Pacific Memory’s identifiable assets and liabilities over the fair value of the consideration for acquiring the interest in Pacific Memory at the date of completion of the Acquisition. The gain on the bargain purchase was a once-off non-cash adjustment which has no impact on the Group’s operating cash flow. If the said gain on bargain purchase had not been recognised during the period under review, the Group would have recorded a loss of approximately HK\$56.8 million for 2018.
- (vi) The Company has carried out review of the intangible asset by engaging GCA, to conduct an independent assessment of the recoverable amount of the intangible asset with reference made to the profit forecast and cash flow projection by the management and the value in use calculation. As the recoverable amount of the intangible asset is lower than the carrying amount as at 31 December 2018, an approximately HK\$30.7 million impairment loss is recognized for the year ended 31 December 2018 (2017: Nil). The pre-tax discount rate used for estimating the value in use is 18.39% (2017: 18.5%).
- (vii) The Company has carried out review of the recoverable amount of certain property, plant and equipment in 2018 based on value-in-use calculations. Accordingly, the reviews led to the recognition of an impairment loss of approximately HK\$9.64 million (2017: Nil), that has been recognized during the year. The recoverable amount of the relevant assets of approximately HK\$22.17 million has been determined based on their value-in-use using discounted cash flow method.
- (viii) The Company has carried out review of the carrying amount of the goodwill allocated to the cash-generating unit of the trading of agricultural and fertilizers products acquired in 2015, an impairment loss of HK\$9.98 million was recognized in 2018 (2017: HK\$36 million).
- (ix) Finance costs decreased by HK\$2.8 million to HK\$1.9 million (2017: HK\$4.7 million) mainly due to decrease of interests of HK\$3.0 million on other unsecured loans of the Group’s unsecured borrowings of HK\$24 million in 2017 which has been repaid using the net proceeds from the Company’s Rights Issue completed in December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

Update on the proposed commercial development at Port Dickson, Malaysia

The development plan of the first phase of proposed commercial development at Port Dickson, Malaysia has already been submitted to the relevant government agencies for approval and the part of the plan that related to the building of berths has already been approved. The local management of Pacific Memory are awaiting for other part of the development plan to be approved before they decide how to proceed with it. Based on the latest development plan, the first phase of the proposed development is estimated to be completed in around 2021 while the second phase of the proposed development is estimated to be completed in 2023.

Prospect

The Group has been identifying suitable investment opportunities to drive sustainable growth for the Group and to enhance long-term corporate value. To this end, the Company has completed the acquisition of 35% equity interest in Pacific Memory in March 2018 by which the Company could leverage on the potential of the property market in Malaysia.

To further enhance Shareholders' value, the Company has identified another acquisition target (the "Target Company") with potential growth and entered into an acquisition agreement with Qianhai CITIC in September 2018 to acquire the Target Company which is principally engaged in primary land development projects in the PRC. For details and prospect of the acquisition, please refer to the announcements of the Company dated 16 September 2018, 19 December 2018, 2 January 2019 and 15 January 2019 and the circular of the Company dated 21 December 2018.

The Company completed the acquisition on 21 January 2019 and the Target Company has become an indirect wholly-owned subsidiary of the Company and its financial results will be consolidated into the financial statements of the enlarged Group.

Qianhai CITIC is principally engaged in, among other things, investment management and provision of urban construction advisory services for projects which are predominantly located in the PRC. The projects undertaken by Qianhai CITIC are often large-scale projects in cooperation with the local government and/or private commercial entities and the projects are located in various prominent cities in the PRC. Qianhai CITIC is also currently engaged by Pacific Memory to run the overall management of the proposed commercial development at Port Dickson, Malaysia.

We believe with these acquisitions, we have positioned ourselves for continuous growth and success.

THE GROUP'S LIQUIDITY AND FINANCIAL RESOURCES

Cash position

As at 31 December 2018, the Group had cash and bank deposits of HK\$18.3 million (2017: HK\$306 million) including a foreign currency deposits denominated in Renminbi ("RMB") amounted to HK\$9.8 million (2017: HK\$8.5 million).

MANAGEMENT DISCUSSION AND ANALYSIS

Current ratio

As at 31 December 2018, the Group had net current assets of HK\$198.5 million (2017: HK\$414.6 million) and current ratio (being current assets over current liabilities) of 2.30 (2017: 4.07).

Debts and borrowings

As at 31 December 2018, the Group had total debts and borrowings of HK\$17 million (2017: HK\$21 million) which included unsecured loan from a financial institute, secured bank loan, unsecured other loans and secured factoring loans in total of HK\$16.7 million (2017: HK\$20.7 million).

Gearing ratio

The Group's gearing ratio being total debt over total equity is 1.4% (2017: 2.4%).

Exposure to Fluctuation in Exchange Rates, Interest Rates and Related Hedges

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 management will monitor the Group's foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise and appropriate instrument be available.

The interest rates profiles of the Group's borrowings are mainly at fixed rates. The Group has minimal exposure to interest rate risk, the Group's operating cash flows are substantially independent of changes in market interest rates. The Group does not hedge against interest rates risk as the management does not foresee the impact of any fluctuation in interest rates to be material to the Group.

Fund Raising Activities

The Company has not conducted any fund raising activities in 2018.

MATERIAL ACQUISITIONS AND DISPOSAL OF SUBSIDIARIES

The Company completed the acquisition of 35% equity interest in Pacific Memory on 16 March 2018. Pacific Memory has become an associate of the Company and its financial results was equity accounted for in the results of the Group for the year ended 31 December 2018. For details of the acquisition, please refer to the Company's announcements dated 15 May 2017, 19 January 2018, 8 March 2018 and 16 March 2018 and circular dated 15 February 2018.

Saved as disclosed above the Group had neither any material acquisition nor disposal in 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

MATERIAL CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2018, the Group had 31 employees (2017: 31) in Hong Kong, 953 employees (2017: 963) in PRC and 2 employees (2017: 2) in Indonesia. Employees' remuneration are given and reviewed based on market norms, individual performance and experience. Awards and bonuses are considered based on the Group's business results and employees' individual merit.

The Company has an option scheme which was approved in a shareholders' special general meeting on 31 August 2015 ("Share Option Scheme 2015"). Under Share Option Scheme 2015, the Company may offer to any persons who the Board considered, in its sole discretion, have contributed or will contribute to the Group. Details of Share Option Scheme 2015 were set out in the Company's circular on 14 August 2015. No share options were granted or exercised during both 2018 and 2017 under Share Option Scheme 2015.

CORPORATE GOVERNANCE REPORT

INTRODUCTION

The board of directors of the Company (the “Board”) commits to maintain and ensure high standards of corporate governance and has adopted the provisions contained in the Code on Governance Practices (“Code”) as set out in Appendix 14 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited (“Listing Rules”) throughout the year ended 31 December 2018 except for the deviations as disclosed in this report. This report also outlines the main corporate governance processes and practices adopted by the Company with specific reference to the provisions of the Code.

DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (“Model Code”) as set out in Appendix 10 of the Listing Rules as its own code for dealing in securities of the Company by the Directors. Having made specific enquiry of all Directors, the Company confirmed that all Directors have complied with the required standard as set out in the Model Code during the year ended 31 December 2018.

BOARD OF DIRECTORS

The Company is led and controlled through the Board. Apart from its statutory responsibilities, the Board sets the Group’s overall business and financial strategies as well as setting policies on various matters including major investments, key operational targets and financial control.

Following is the list of Directors during the year under review:

Executive Directors

Mr. Leung Chung Shan (*Chairman*) (*Appointed on 18 January 2018*)¹

Mr. Tam Lup Wai, Franky (*Deputy Chairman*)¹

Mr. Liu Liyang (*CEO*)¹

Mr. Au Yeung Yiu Chung

Mr. Chan Tat Ming, Thomas

Mr. Luo Xiaohong (*Resigned on 20 July 2018*)

Independent Non-executive Directors (“INEDs”)

Mr. Hau Chi Kit

Mr. Lam Bing Kwan (*Retired on 4 June 2018*)²

Mr. Leung Chi Hung

Mr. Li Hon Kuen

CORPORATE GOVERNANCE REPORT

Notes

1. On 18 January 2018:
 - (i) Mr. Leung Chung Shan, was appointed as an executive Director and the chairman of both the Board and the Nomination Committee;
 - (ii) Mr. Tam Lup Wai, Franky was re-designated from the chairman of the Board to the deputy chairman of the Board, and ceased to be the chairman of the Nomination Committee but remained as the executive Director; and
 - (iii) Mr. Liu Liyang was ceased to be the deputy chairman of Board but remained as the Chief Executive Officer of the Company and executive Director.
2. Mr. Lam Bing Kwan retired as an independent non-executive Director of the Company and ceased to be the chairman of the remuneration committee and member of the audit committee and the nomination committee of the Company with effect from the conclusion of the Company's annual general meeting on 4 June 2018.

The profiles of the Directors' qualifications and experience are set out on pages 3 to 5 of this annual report and at least one of the INEDs possesses recognized professional qualification in accounting. The Board is of the view that its current composition provides the necessary skill and experience for the requirements of the Group's business.

All INEDs have confirmed in writing to the Company that they meet the guidelines for assessing independence set out in Rule 3.13 of the Listing Rules.

During the year ended 31 December 2018, the Company has complied with all provisions set out in the Code on Corporate Governance Practices contained in Appendix 14 of the Listing Rules except for the Provision A.4.1 stipulates that independent non-executive Directors ("INEDs") should be appointed for a specific term and subject to re-election. During the year under reviewed, all INEDs of the Company were not appointed for a specific term but were subject to retirement by rotation at the annual general meeting in accordance with the Bye-laws of the Company. As all director's appointment is subject to review when they are due for re-election, the Company is of the view that this meets the same objectives of the said code provision.

DIRECTORS' TRAINING

Newly appointed Directors will be provided with necessary induction and information to ensure they have a proper understanding of the Group's operations and businesses as well as their responsibilities under the Listing Rules and the other applicable regulatory requirements. The Company did not appoint any Director in 2018.

CORPORATE GOVERNANCE REPORT

The Company had arranged and funded suitable training for the Directors to attend during the year under review. In 2018, all Directors had participated in continuous professional development to refresh their knowledge and skills and had provided the records of the training they received to the Company. The following table summarises the continuous professional development of each director had in 2018:

	Type of continuous professional development	
	Attending seminars/trainings on relevant industrial development, regulatory updates or directors' duties	Reading regulatory updates or information relevant to directors' duties
Executive Directors		
Mr. Leung Chung Shan	✓	✓
Mr. Tam Lup Wai, Franky	✓	✓
Mr. Liu Liyang	✓	✓
Mr. Au Yeung Yiu Chung	✓	✓
Mr. Chan Tat Ming, Thomas	✓	✓
Mr. Luo Xiaohong (<i>Resigned on 20 July 2018</i>)	N/A	N/A
Independent Non-executive Directors		
Mr. Hau Chi Kit	✓	✓
Mr. Lam Bing Kwan (<i>Retired on 4 June 2018</i>)	N/A	N/A
Mr. Leung Chi Hung	✓	✓
Mr. Li Hon Kuen	✓	✓

AUDIT COMMITTEE

The Company's Audit Committee was established in December 1999. Following were the members during 2018:

Mr. Li Hon Kuen (*Chairman*)
 Mr. Hau Chi Kit
 Mr. Lam Bing Kwan (*Retired on 4 June 2018*)
 Mr. Leung Chi Hung

The Audit Committee has adopted terms of reference which are in line with the Code. The primary function of the Audit Committee is to review and monitor the Group's financial reporting process and internal controls. It is also responsible for making recommendation to the Board for the appointment, re-appointment or removal of the external auditor.

CORPORATE GOVERNANCE REPORT

During the year ended 31 December 2018, the Audit Committee had reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group and discussed auditing, internal controls and financial reporting matters including the audited financial statements and unaudited interim financial statements. The Audit Committee had also reviewed the resources, qualifications and experience of staffs of the Group's accounting and financial reporting function, and their training and budget, and was satisfied with their adequacy.

REMUNERATION COMMITTEE

The Company's Remuneration Committee was established in August 2005. Following were the members during 2018:

Mr. Leung Chi Hung (*Chairman*) (*Appointed on 4 June 2018*)
Mr. Hau Chi Kit
Mr. Lam Bing Kwan (*Retired on 4 June 2018*)
Mr. Li Hon Kuen
Mr. Liu Liyang
Mr. Tam Lup Wai, Franky

The Remuneration Committee has adopted terms of reference which are in line with the Code to make recommendations to the Board to determine the remuneration of Directors and senior management. During 2018, the Committee had assessed the performance of the executive directors and senior management and considered their remuneration by reference to their experiences and remuneration paid by comparable companies. Details of the remuneration of directors are disclosed on an individual basis and are set out in note 14 to the financial statements.

NOMINATION COMMITTEE

The Company's Nomination Committee was established on 29 March 2012. Following were the members during 2018:

Mr. Leung Chung Shan (*Appointed on 18 January 2018*)
Mr. Hau Chi Kit
Mr. Lam Bing Kwan (*Retired on 4 June 2018*)
Mr. Leung Chi Hung
Mr. Li Hon Kuen
Mr. Liu Liyang
Mr. Tam Lup Wai, Franky

The Nomination Committee has adopted terms of reference which are in line with the Code. The primary functions of the Nomination Committee are to review the structure, size and composition of the Board, identify individuals suitably qualified to become members of the Board, and assess the independence of INEDs.

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for determining the policy for the corporate governance of the Company and performing the corporate governance duties as below:

- (i) To develop and review the Company's policies and practices on corporate governance;
- (ii) To review and monitor the training and continuous professional development of directors and senior management;
- (iii) To review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (iv) To develop, review and monitor the code of conduct and compliance manual applicable to employees and directors; and
- (v) To review the Company's compliance with the code and disclosure in the Corporate Governance Report.

BOARD, COMMITTEES AND OTHER MEETINGS

The following table summarises the total number of the meetings and the individual attendance of each Director in 2018:

	Board Meeting	Audit Committee	Remuneration Committee	Nomination Committee	2018 Annual General Meeting	Special General Meeting on 3 March 2018
Executive Directors						
Mr. Leung Chung Shan (<i>Chairman</i>) ¹	8/11	N/A	N/A	0/1	0/1	0/1
Mr. Tam Lup Wai, Franky (<i>Deputy Chairman</i>)	11/11	N/A	2/2	1/1	1/1	1/1
Mr. Liu Liyang (<i>CEO</i>)	11/11	N/A	2/2	1/1	1/1	1/1
Mr. Au Yeung Yiu Chung	8/11	N/A	N/A	N/A	0/1	1/1
Mr. Chan Tat Ming, Thomas	10/11	N/A	N/A	N/A	1/1	1/1
Mr. Luo Xiaohong ²	1/11	N/A	N/A	N/A	0/1	1/1
Independent Non-executive Directors						
Mr. Hau Chi Kit	7/11	2/2	2/2	1/1	1/1	0/1
Mr. Lam Bing Kwan ³	6/11	1/2	2/2	1/1	1/1	1/1
Mr. Leung Chi Hung	9/11	2/2	2/2	1/1	1/1	1/1
Mr. Li Hon Kuen	10/11	2/2	2/2	1/1	1/1	1/1

Notes:

1. Mr. Leung Chung Shan was appointed on 18 January 2018
2. Mr. Luo Xiaohong was resigned on 20 July 2018
3. Mr. Lam Bing Kwan was retired on 4 June 2018

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors are responsible for the preparing of the financial statements for each financial period, which give a true and fair view of the state of affairs of the Group and of the results, and cash flows for that period. The Company's accounts are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates on a going concern basis.

AUDITOR'S RESPONSIBILITIES AND REMUNERATION

The statement of ZHONGHUI ANDA regarding their report responsibilities is set out in the Independent Auditor's Report on pages 37 to 42 of this annual report.

The service fees incurred/paid by the Group in 2018 and 2017 to ZHONGHUI ANDA were as follows:

	2018	2017
Audit service	HK\$880,000	HK\$770,000
Non-audit service	HK\$1,580,000	HK\$563,000

RISK MANAGEMENT AND INTERNAL CONTROLS

The Board is responsible for the Group's risk management and internal control systems and reviewing their effectiveness at least annually. These systems are designed to provide reasonable, though not absolute, assurance against material misstatement or loss and to manage rather than eliminate the risk of failure to achieve our corporate objectives. On the other hand, the management is responsible for the design, implementation and maintenance of the risk management and internal control systems.

The Company has adopted a top-down strategic risk management approach and a complementary bottom-up operational risk management process. Risk management starts from the top level with the Board to determine the nature and extent of risk it is willing to take according to our corporate objectives and put them in context of the external environment in which our operations are.

The Executive Directors, as part of the management, are responsible for identifying principal risks and the key risk indicators to monitor in accordance with the strategy set by the Board. The Executive Directors are also responsible for delivering the strategic actions to the operational level. At the operational level, the Head of business units are responsible to execute the strategic actions and report on key risk indicators. Typically these are achieved by implementing sound internal control systems. Internal control system is defined as a system of control procedures for assuring achievement of an organization's objectives in operational effectiveness and efficiency, reliable financial reporting, and compliance with laws, regulations and policies. Different internal control systems have be set up for the Group's different business units. And to monitor the effectiveness of these systems, the management has also set up an internal audit function.

CORPORATE GOVERNANCE REPORT

Whilst responsibility for oversight of risk management rests with the Board, the effective day-to-day management of risk is embedded in all areas of our business and forms an integral part of our risk management system. As such, head of business units maintain regular communication with the Executive Directors to report current and emerging risks. Such bottom-up process ensures potential risks are identified and mitigated and significant risks escalated to the Board for consideration as appropriate.

In 2018, the Board through the Audit Committee and the internal audit function, had conducted a review of the effectiveness of material controls, including financial, operational and compliance controls, of the Group's major risk management and internal control systems and the Company considers these systems effective and adequate. The review process included formulating audit plan, approving audit program and reviewing internal audit function's working.

DISCLOSURE OF INSIDE INFORMATION

The Group has internal policy and procedures which strictly prohibit unauthorized use of inside information. The Board is aware of its obligations to announce any inside information in accordance with the Listing Rules and conducts the affairs with reference to the "Guidelines on Disclosure of Inside Information" issued by the Securities and Futures Commission in June 2012. In addition, only Directors and delegated officers are authorized to respond to external enquiries about the Group's affairs.

COMPANY SECRETARY

Mr. Chan Tsz Leung had undertaken sufficient hours of relevant professional training in compliance with Rule 3.29 of the Listing Rules during the year under review.

COMMUNICATION WITH SHAREHOLDERS

The annual general meeting provides a useful channel for Shareholders to communicate with the Board. All Shareholders have at least 20 clear business days' notice of annual general meeting at which Directors are available to answer questions on the Company's affair. Separate resolutions are proposed at the annual general meeting on each substantially separate issue, including the election of individual Director. Pursuant to Rule 13.39 of the Listing Rule, any votes of the Shareholders at a general meeting must be taken by poll.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS

Convening a Special General Meeting by Shareholders

Pursuant to Bye-law 58, a special general meeting may be convened by the Board upon requisition by any shareholder holding at the date of deposit of the written requisition not less than one tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. The shareholder shall make a written requisition to the Board or the Company Secretary of the Company at the head office and principal place of business of the Company in Hong Kong, specifying the shareholding information of the shareholder, their contact details and the proposal regarding any specified transaction/business and its supporting documents. The Board shall arrange to hold such general meeting within two months after the receipt of such written requisition. If within twenty one days of the receipt of such written requisition, the Board fails to proceed to convene such special general meeting, the shareholder shall do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

Putting Forward Proposals at General Meetings

Shareholders who wish to put forward a proposal should convene an extraordinary general meeting by the procedures as set out in the above "Convening of extraordinary general meeting by Shareholders".

Putting Forward Enquiries to the Board

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Company's head office and principal place of business in Hong Kong at Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong.

REPORT OF THE DIRECTORS

The Directors present their annual report together with the audited financial statements of the Company and its subsidiaries (together the “Group”) for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities and other particulars of the subsidiaries are set out in note 43 to the financial statements.

The analysis of the principal activities and geographical locations of the operations of the Company and its subsidiaries during the year ended 31 December 2018 are set out in note 9 to the financial statements.

BUSINESS REVIEW

The business review of the Group for year ended 31 December 2018 including a discussion of the principal risks and uncertainties facing the group and an indication of likely future developments in the group’s business, can be found in the Chairman’s Statement and Management Discussion and Analysis which set out on page 7 and pages 8 to 20 respectively of this Annual Report. Details about the Group’s financial risk management are set out in note 5 to the Consolidated Financial Statements.

The Group is committed to adopt environmentally responsible practices throughout its operations. The key points of our environmental policy to achieve this are:

- Comply with all the environmental laws and regulations that relate to the Group’s operations;
- Prevent the environmental impact of our products throughout their design and manufacturing process;
- Ensure every employee understands and is responsible for incorporating environmental considerations in their daily business activities; and
- Pursue continuous improvement in environmental performance.

The Company’s principal subsidiary Dongguan Weihang Electrical Product Company Limited has been accredited with ISO 14001, an environmental management system certification, since 2007.

During the year ended 31 December 2018, the Group had complied with the relevant laws and regulations that have a significant impact on the Group.

REPORT OF THE DIRECTORS

MAJOR CUSTOMERS AND SUPPLIERS

The information in respect of the Group's sales and purchases attributable to the major customers and suppliers respectively during 2018 is as follows:

	Percentage of the Group's total	
	Sales Purchases	Sales Purchases
The largest customer	26%	–
Five largest customers in aggregate	57%	–
The largest supplier	–	9%
Five largest suppliers in aggregate	–	27%

At no time during the year have the Directors, their associates or any Shareholders of the Company (which to the knowledge of the Directors owns more than 5% of the Company's share capital) had any interest in these major customers and suppliers.

FINANCIAL RESULTS AND APPROPRIATIONS

The Group's results for the year ended 31 December 2018 and the state of the Group's affairs as at that date are set out in the financial statements on pages 43 to 119.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year ended 31 December 2018 are set out in note 36 to the financial statements and the consolidated statement of changes in equity on page 47 of this annual report.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in property, plant and equipment of the Group during the year ended 31 December 2018 are set out in note 19 to the financial statements.

SUBSIDIARIES, ASSOCIATES AND JOINT VENTURE

Particulars of the Company's subsidiaries are set out in note 43 to the financial statements.

SHARE CAPITAL

Details of the movements in share capital of the Company during the year ended 31 December 2018 are set out in note 35 to the financial statements.

REPORT OF THE DIRECTORS

CONVERTIBLE BONDS

The Company has no convertible bonds in issue during the year ended 31 December 2018.

DIRECTORS

As at the date of this report, the board of Directors of the Company (the “Board”) comprises:

Executive Directors

Mr. Leung Chung Shan (*Chairman*) (*Appointed on 18 January 2018*)

Mr. Tam Lup Wai, Franky (*Deputy Chairman*)

Mr. Liu Liyang (*CEO*)

Mr. Au Yeung Yiu Chung

Mr. Chan Tat Ming, Thomas

Independent non-executive Directors

Mr. Hau Chi Kit

Mr. Leung Chi Hung

Mr. Li Hon Kuen

Pursuant to Bye-law 87, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one third) shall retire from office by rotation. Accordingly, Mr. Chan Tat Ming, Thomas, Mr. Hau Chi Kit and Mr. Li Hong Kuen will retire from office by rotation and being eligible, put themselves up for re-election in the Company’s forthcoming annual general meeting in 2019.

The Company confirmed that it has received from each of the independent non-executive Directors an annual confirmation of his independence pursuant to Rule 3.13 and the Company still considers the independent non-executive Directors to be independent.

INDEMNITY OF DIRECTORS

A permitted indemnity provision (as defined in section 469 of the Hong Kong Companies Ordinance) for the benefit of the Directors of the Company was in force throughout the year ended 31 December 2018. The Company has undertaken Director and Officers Liability Insurance to provide such indemnity to all Directors of the Company.

DIRECTORS’ SERVICE CONTRACT

No Director proposed for re-election at the forthcoming annual general meeting has an unexpired service contract, which is not determinable by the Company or any of its subsidiaries within one year without payment of compensation, other than normal statutory compensation.

REPORT OF THE DIRECTORS

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

As at 31 December 2018, except for Mr. Leung Chung Shan, none of the Directors and chief executive of the Company nor their associates had any interests and short positions in any shares, underlying shares and debenture of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies.

The interests of Mr. Leung Chung Shan in shares of the Company as at 31 December 2018 was disclosed in the section titled "Substantial Shareholders' and Other Persons Interests and Short Positions in Shares and Underlying Shares."

SHARE OPTION SCHEME

The Company has an option scheme which was approved in a Shareholders' special general meeting on 31 August 2015 ("Share Option Scheme 2015"). Under Share Option Scheme 2015, the Company may offer to any persons who the Board considered, in its sole discretion, have contributed or will contribute to the Group. Details of Share Option Scheme 2015 were set out in the Company's circular on 14 August 2015. No share options were granted or exercised during 2018 under Share Option Scheme 2015.

Save as disclosed above, none of the Directors or chief executive of the Company or their spouses or children aged below 18 had any right to subscribe for equity or debt securities of the Company or had exercised any such right during the year under review.

DIRECTORS' EMOLUMENTS

Particulars of the Directors' emoluments disclosed pursuant to section 161 of the Companies Ordinance and Appendix 16 of the Listing Rules are set out in note 14 to the financial statements.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, other than the interests of the Directors and chief executive of the Company as disclosed in the section titled “Directors’ Interests and Short Positions in Shares, Underlying Shares and Debentures”, the following persons had interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) (the “SFO”), or which were recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange:

Long positions of substantial shareholders in the shares and underlying shares

Name of Shareholders	Capacity	Number of Shares Held	Approximate % of Shareholding ¹
Leung Chung Shan ²	Beneficial owner	4,233,534,364	48.20%
Lim Kim Chai	Beneficial owner	1,569,420,951	17.87%
Shek Ying ³	Interest of spouse	4,233,534,364	48.20%

Notes

1. Based on 8,783,417,951 shares of the Company in issue as at 31 December 2018.
2. Mr. Leung Chung Shan is the Chairman and executive Director of the Company.
3. Ms. Shek Ying is the spouse of Mr. Leung Chung Shan.

Save as disclosed above, as at 31 December 2018, no other person had any interest or short position in the shares or underlying shares of the Company as recorded in the register required to be kept by the Company under Section 336 of the SFO, or as otherwise notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACT

No contract of significance in relation to the Group’s business to which the Company or any of its subsidiaries was a party and in which a Director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year ended 31 December 2018.

REPORT OF THE DIRECTORS

DISTRIBUTABLE RESERVES

The Company's share premium account, with a balance of HK\$657,318,000 as at 31 December 2018, may be applied in paying up unissued shares of the Company to be issued to the Shareholders of the Company as fully paid bonus shares.

The Company's contributed surplus account, with a balance of HK\$635,891,000 as at 31 December 2018, is distributable subject to satisfaction of certain solvency requirements and the Company may apply the contributed surplus in any manner not prohibited by the Companies Act and the Bye-law of the Company.

Save as disclosed above, the Company had no reserves available for distribution to Shareholders of the Company, as computed in accordance with the Companies Act 1981 of Bermuda.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro-rata basis to existing Shareholders.

RELATED PARTY TRANSACTIONS AND CONNECTED TRANSACTIONS

Details of related party transactions for the year are set out in note 41 to the consolidated financial statements.

There were no transactions that need to be disclosed as connected transactions under Chapter 14A of the Listing Rules during the year under review and the Company has complied with the requirements in Chapter 14A of the Listing Rules.

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

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

LOANS FROM BANKS AND OTHER FINANCIAL INSTITUTIONS

Particulars of loans from banks and other financial institutions of the Group as at 31 December 2018 are set out in note 31 to the financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years is set out on page 120 of this annual report.

REPORT OF THE DIRECTORS

PENSION SCHEME

The Group operates a mandatory provident fund scheme (“MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% and employees are required to make 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans (the “Plans”) organized by local authorities for the Group’s employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other material obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

Details of the pension scheme contributions of the employees, net of forfeited contributions, which have been dealt with in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018, are set out in note 34 to the financial statements.

CORPORATE GOVERNANCE

The Company complied with all requirements set out in the Code except for the deviations disclosed in the “Corporate Governance Report” of this annual report.

AUDIT COMMITTEE

Pursuant to the Listing Rules, an Audit Committee was established on 28 December 1999 with written terms of reference. As at the date of this annual report, the Audit Committee comprising four independent non-executive Directors, namely Mr. Li Hon Kuen (Chairman of the Audit Committee), Mr. Hau Chi Kit, Mr. Lam Bing Kwan and Mr. Leung Chi Hung. The principal activities of the Audit Committee include the review and supervision of the Group’s financial reporting process and internal controls.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors at the date of the annual report, there was a sufficient public float of the Company.

REPORT OF THE DIRECTORS

AUDITOR

The financial statements of the Company for the year under review have been audited by ZHONGHUI ANDA, who will retire and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting in 2018.

By Order of the Board

Leung Chung Shan

Chairman and Executive Director

Hong Kong, 29 March 2019

INDEPENDENT AUDITOR'S REPORT**TO THE SHAREHOLDERS OF
eForce Holdings Limited**

意科控股有限公司

*(Incorporated in Bermuda with limited liability)***OPINION**

We have audited the consolidated financial statements of eForce Holdings Limited (the “Company”) and its subsidiaries (collectively referred to as the “Group”) set out on pages 43 to 119, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

INDEPENDENT AUDITOR'S REPORT

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.

(i) Exploration and evaluation assets

Refer to Note 18 to the consolidated financial statements

The Group tested the amount of exploration and evaluation assets for impairment. This impairment test is significant to our audit because the balance of exploration and evaluation assets of approximately HK\$228,690,000 as at 31 December 2018 and the reversal of impairment loss of approximately HK\$29,410,000 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation reports and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgements and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence; and
- Checking arithmetical accuracy of the valuation model.

We consider that the Group's impairment test for exploration and evaluation assets is supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

(ii) Interest in an associate

Refer to Note 22 to the consolidated financial statements

The Group tested the amount of interest in an associate for impairment. This impairment test is significant to our audit because the balance of interest in an associate of approximately HK\$617,424,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on assumptions and estimates.

Our audit procedures included, among others:

- Assessing the competence, independence and integrity of the external valuer engaged by client;
- Obtaining the external valuation report and meeting with the external valuer to discuss and challenge the valuation process, methodologies used and market evidence to support significant judgements and assumptions applied in the valuation model;
- Checking key assumptions and input data in the valuation model to supporting evidence; and
- Checking arithmetical accuracy of the valuation model.

We consider that the Group's impairment test for interest in an associate is supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

(iii) Loans and interests receivables

Refer to Note 24 to the consolidated financial statements

The Group tested the amount of loans and interests receivables for impairment. This impairment test is significant to our audit because the balance of loans and interests receivables of approximately HK\$130,251,000 as at 31 December 2018 is material to the consolidated financial statements. In addition, the Group's impairment test involves application of judgement and is based on estimates.

Our audit procedures included, among others:

- Assessing the Group's procedures on granting loans limits and loans periods to borrowers;
- Assessing the Group's relationship and transaction history with the borrowers;
- Evaluating the Group's impairment assessment;
- Assessing ageing of the debts;
- Assessing creditworthiness of the borrowers;
- Checking subsequent settlements from the borrowers; and
- Assessing the disclosure of the Group's exposure to credit risk in the consolidated financial statements.

We consider that the Group's impairment test for loans and interests receivables is supported by the available evidence.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION

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

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

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

RESPONSIBILITIES OF DIRECTORS 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 HKFRSs 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.

INDEPENDENT AUDITOR'S REPORT

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. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

A further description of our responsibilities for the audit of the consolidated financial statements is located at the HKICPA's website at:

<http://www.hkicpa.org.hk/en/standards-and-regulations/standards/auditing-assurance/auditre/>

This description forms part of our auditor's report.

ZHONGHUI ANDA CPA Limited

Certified Public Accountants

Sze Lin Tang

Audit Engagement Director

Practising Certificate Number P03614

Hong Kong, 29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interest revenue		16,145	13,681
Other revenue		282,972	185,537
Total revenue	7	299,117	199,218
Cost of sales		(192,590)	(136,094)
Gross profit		106,527	63,124
Other income	8	4,326	7,435
Selling and distribution expenses		(10,855)	(11,935)
Administrative expenses		(110,619)	(85,234)
Loss from operations		(10,621)	(26,610)
Reversal of impairment loss on exploration and evaluation assets	18	29,410	27,310
Loss on revaluation of property, plant and equipment		–	(5,734)
Net (loss)/gain on fair value changes on investment at fair value through profit or loss	10	(15,554)	1,551
Impairment of unpatented technology	21	(30,680)	–
Impairment of other assets	25	(1,374)	–
Impairment of property, plant and equipment	19	(9,640)	–
Impairment of goodwill	20	(9,977)	(36,000)
Impairment of loan receivables	24	(3,000)	–
Gain on bargain purchase	22	111,733	–
Share of results of an associate	22	(1,090)	–
Finance costs	11	(1,930)	(4,707)
Profit/(loss) before tax		57,277	(44,190)
Income tax expense	12	(2,338)	(185)
Profit/(loss) for the year	13	54,939	(44,375)
Other comprehensive (loss)/income:			
<i>Items that may be reclassified to profit or loss:</i>			
Exchange differences on translating foreign operations		(43,991)	9,500
<i>Items that will not be reclassified to profit or loss:</i>			
Gain on property revaluation		5,507	12,867
Other comprehensive (loss)/income for the year, net of tax	17	(38,484)	22,367
Total comprehensive income/(loss) for the year		16,455	(22,008)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss) for the year attributable to:			
Owners of the Company		55,386	(43,664)
Non-controlling interests		(447)	(711)
		<u>54,939</u>	<u>(44,375)</u>
Total comprehensive income/(loss) for the year attributable to:			
Owners of the Company		16,865	(22,261)
Non-controlling interests		(410)	253
		<u>16,455</u>	<u>(22,008)</u>
Earnings/(loss) per share	<i>16</i>		
Basic (cents per share)		<u>0.65</u>	<u>(2.51)</u>
Diluted (cents per share)		<u>N/A</u>	<u>N/A</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2018

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets			
Exploration and evaluation assets	18	228,690	199,280
Property, plant and equipment	19	98,899	113,286
Goodwill	20	–	9,977
Interest in an associate	22	617,424	–
Intangible assets	21	70,570	116,250
Investment at fair value through profit or loss	23	14,028	29,422
Other assets	25	3,161	4,782
		<u>1,032,772</u>	<u>472,997</u>
Current assets			
Inventories	26	41,082	38,782
Trade and other receivables	27	137,322	102,577
Investment at fair value through profit or loss	23	898	1,058
Loans and interests receivables	24	130,251	101,173
Amount due from an associate	28	21,881	–
Current tax assets		905	–
Bank and cash balances	29	18,292	306,018
		<u>350,631</u>	<u>549,608</u>
Current liabilities			
Trade and other payables	30	(128,049)	(109,599)
Borrowings	31	(16,670)	(20,663)
Finance lease payables	32	(318)	(320)
Current tax liabilities		(7,130)	(4,459)
		<u>(152,167)</u>	<u>(135,041)</u>
Net current assets		<u>198,464</u>	<u>414,567</u>
Total assets less current liabilities		<u>1,231,236</u>	<u>887,564</u>

CONSOLIDATED STATEMENT OF FINANCIAL POSITION*At 31 December 2018*

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current liabilities			
Finance lease payables	32	(728)	(1,046)
Deferred tax liabilities	33	(12,957)	(13,430)
		<u>(13,685)</u>	<u>(14,476)</u>
NET ASSETS		<u>1,217,551</u>	<u>873,088</u>
Capital and reserves			
Share capital	35	351	289
Reserves	36	1,214,365	869,554
		<u>1,214,716</u>	869,843
Equity attributable to owners of the Company		<u>2,835</u>	3,245
TOTAL EQUITY		<u>1,217,551</u>	<u>873,088</u>

The consolidated financial statements on pages 43 to 119 were approved and authorised for issue by the board of directors on 29 March 2019 and are signed on its behalf by:

Approved by:

Tam Lup Wai, Franky
Director

Liu Liyang
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY*For the year ended 31 December 2018*

Attributable to owners of the Company

	Share capital	Share premium	Contributed surplus	Foreign currency translation reserve	Warrant reserve	Property revaluation reserve	Accumulated losses	Total	Non- controlling interests	Total
	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>	<i>HK\$'000</i>
At 1 January 2017	58	19,277	626,537	(14,774)	24,226	21,800	(95,346)	581,778	2,992	584,770
Total comprehensive loss for the year	-	-	-	8,730	-	12,673	(43,664)	(22,261)	253	(22,008)
Issue of shares on rights issue	231	310,095	-	-	-	-	-	310,326	-	310,326
At 31 December 2017	<u>289</u>	<u>329,372</u>	<u>626,537</u>	<u>(6,044)</u>	<u>24,226</u>	<u>34,473</u>	<u>(139,010)</u>	<u>869,843</u>	<u>3,245</u>	<u>873,088</u>
At 1 January 2018	289	329,372	626,537	(6,044)	24,226	34,473	(139,010)	869,843	3,245	873,088
Issue of consideration shares	62	327,946	-	-	-	-	-	328,008	-	328,008
Total comprehensive income for the year	-	-	-	(44,028)	-	5,507	55,386	16,865	(410)	16,455
At 31 December 2018	<u>351</u>	<u>657,318</u>	<u>626,537</u>	<u>(50,072)</u>	<u>24,226</u>	<u>39,980</u>	<u>(83,624)</u>	<u>1,214,716</u>	<u>2,835</u>	<u>1,217,551</u>

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cash flows from operating activities		
Profit/(loss) before tax	57,277	(44,190)
Adjustments for:		
Share of results of an associate	1,090	–
Finance costs	1,930	4,707
Interest income	(40)	(2,032)
Amortisation	15,000	15,000
Depreciation	12,439	7,446
Reversal of impairment loss on exploration and evaluation assets	(29,410)	(27,310)
Impairment of other assets	1,374	–
Impairment of unpatented technology	30,680	–
Impairment of property, plant and equipment	9,640	–
Impairment of goodwill	9,977	36,000
Gain on bargain purchase	(111,733)	–
Loss on revaluation of property	–	5,734
Gain on disposals of property, plant and equipment	(26)	(83)
Written off of property, plant and equipment	–	15
	<hr/>	<hr/>
Operating loss before working capital changes	(1,802)	(4,713)
Change in inventories	(2,300)	(4)
Change in trade receivables and other receivables	(37,979)	(3,768)
Change in other receivables, deposits and prepayments	3,234	17,195
Change in loans and interests receivables	(29,078)	(19,477)
Change in trade and other payables	18,450	9,697
Change in financial assets at fair value through profit or loss	15,554	(2,710)
	<hr/>	<hr/>
Cash used in operations	(33,921)	(3,780)
Interest received	40	2,032
Tax paid	(2,379)	(973)
	<hr/>	<hr/>
Net cash used in operating activities	(36,260)	(2,721)

CONSOLIDATED STATEMENT OF CASH FLOWS*For the year ended 31 December 2018*

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Cash flows from investing activities		
Acquisition of an associate	(238,700)	–
Purchase of property, plant and equipment	(5,922)	(8,493)
Proceeds from disposal of property, plant and equipment	<u>90</u>	<u>563</u>
Net cash used in investing activities	<u>(244,532)</u>	<u>(7,930)</u>
Cash flows from financing activities		
New borrowings	14,727	11,287
Net increase/(decrease) in factoring loans	1,561	(4)
Repayment of borrowings	(19,237)	(23,059)
Repayment of finance lease payables	(320)	(401)
Net proceeds from the open offer	–	310,326
Interests paid	<u>(1,930)</u>	<u>(4,707)</u>
Net cash (used in)/generated from financing activities	<u>(5,199)</u>	<u>293,442</u>
Net (decrease)/increase in cash and cash equivalents	(285,991)	282,791
Cash and cash equivalents at beginning of year	306,018	19,894
Effect of changes in foreign exchange rate	<u>(1,735)</u>	<u>3,333</u>
Cash and cash equivalents at end of year	<u><u>18,292</u></u>	<u><u>306,018</u></u>
Analysis of cash and cash equivalents		
Bank and cash balances	<u><u>18,292</u></u>	<u><u>306,018</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

1. GENERAL INFORMATION

eForce Holding Limited was incorporated in Bermuda as an exempted company with limited liability. The address of its registered office is Clarendon House, 2 Church Street, Hamilton HM11, Bermuda. The address of its principal place of business is Suite 3008, Man Yee Building, 68 Des Voeux Road Central, Central, Hong Kong. The Company's shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are set out in note 43 to the consolidated financial statements.

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

In the current year, the Group has adopted all the new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants that are relevant to its operations and effective for its accounting year beginning on 1 January 2018. HKFRSs comprise Hong Kong Financial Reporting Standards; Hong Kong Accounting Standards; and Interpretations. The adoption of these new and revised HKFRSs did not result in significant changes to the Group's accounting policies, presentation of the Group's consolidated financial statements and amounts reported for the current year and prior years.

The Group has not applied the new and revised HKFRSs that have been issued but are not yet effective. The Group has already commenced an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether these new and revised HKFRSs would have a material impact on its results of operations and financial position except as describe below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

2. ADOPTION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS *(Continued)*

HKFRS 16 Lease

HKFRS 16 replaces HKAS 17 Leases and related interpretations. The new standard introduces a single accounting model for lessees. For lessees the distinction between operating and finance leases is removed and lessees will recognise right-of-use assets and lease liabilities for all leases (with optional exemptions for short-term leases and leases of low value assets). HKFRS 16 carries forward the accounting requirements for lessors in HKAS 17 substantially unchanged. Lessors will therefore continue to classify leases as operating or financing leases.

The Group's leased premises are currently classified as operating leases and the lease payments (net of any incentives received from the lessor) are recognised as an expense on a straight-line basis over the lease term. Under HKFRS 16 the Group may need to recognise and measure a liability at the present value of the future minimum lease payments and recognise a corresponding right-of-use asset for these leases. The interest expense on the lease liability and amortisation on the right-of-use asset will be recognised in profit or loss. The Group's assets and liabilities will increase and the timing of expense recognition will also be impacted as a result.

As disclosed in note 39, the Group's future minimum lease payments under non-cancellable operating leases for its leased premises amounted to approximately HK\$13,904,000 as at 31 December 2018. Based on a preliminary assessment, the Group anticipates that the initial adoption of HKFRS 16 in the future will result in an increase in right-of-use assets and lease liabilities, which is unlikely to have material impact on the Group's financial position. The Group also anticipates that the net impact (as a result of the combination of the interest expenses arising from the lease liabilities and the amortization of the right-of-use assets as compared to the rental expense under existing standard) on the Group's financial performance will not be material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs, accounting principles generally accepted in Hong Kong and the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange and by the Hong Kong Companies Ordinance.

These consolidated financial statements have been prepared under the historical cost convention, as modified by the revaluation of land and buildings and investment at fair value through profit or loss held by the Company which are carried at their fair values.

The preparation of consolidated 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 consolidated financial statements, are disclosed in note 4 to the consolidated financial statements.

The significant accounting policies applied in the preparation of these consolidated financial statements are set out below.

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.

When assessing control, the Group considers its potential voting rights as well as potential voting rights held by other parties, to determine whether it has control. 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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Consolidation *(Continued)*

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 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.

Business combination and goodwill

The acquisition method is used to account for the acquisition of a subsidiary in a business combination. The cost of acquisition is measured at the acquisition-date fair value of the assets given, equity instruments issued, liabilities incurred and 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 cost of acquisition over the Company's share of the net fair value of the subsidiary's identifiable assets and liabilities is recorded as goodwill. Any excess of the Company's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss as a gain on bargain purchase which is attributed to the Company.

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 cost of acquisition to calculate the goodwill.

If the changes in the value of the previously held equity interest in the subsidiary were recognised in other comprehensive income (for example, financial assets at fair value through other comprehensive income), the amount that was recognised in other comprehensive income is recognised on the same basis as would be required if the previously held equity interest were disposed of.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combination and goodwill (Continued)

Goodwill is tested annually for impairment or more frequently if events or changes in circumstances indicate that it might be impaired. Goodwill is measured at cost less accumulated impairment losses. The method of measuring impairment losses of goodwill is the same as that of other assets as stated in the accounting policy (Impairment of assets) below. Impairment losses of goodwill are recognised in consolidated profit or loss and are not subsequently reversed. Goodwill is allocated to cash-generating units that are expected to benefit from the synergies of the acquisition for the purpose of impairment testing.

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

Associates

Associates are entities over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of an entity but is not control or joint control over those policies. The existence and effect of potential voting rights that are currently exercisable or convertible, including potential voting rights held by other entities, are considered when assessing whether the Group has significant influence. In assessing whether a potential voting right contributes to significant influence, the holder's intention and financial ability to exercise or convert that right is not considered.

Interest in an associate is accounted for in the consolidated financial statements by the equity method and is initially recognised at cost. Identifiable assets and liabilities of the associate in an acquisition are measured at their fair values at the acquisition date. The excess of the cost of acquisition over the Group's share of the net fair value of the associate's identifiable assets and liabilities is recorded as goodwill. The goodwill is included in the carrying amount of the investment and is tested for impairment together with the investment at the end of each reporting period when there is objective evidence that the investment is impaired. Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of acquisition is recognised in consolidated profit or loss.

The Group's share of an associate's post-acquisition profits or losses is recognised in consolidated profit or loss, and its share of the post-acquisition movements in reserves is recognised in the consolidated reserves. The cumulative post-acquisition movements are adjusted against the carrying amount of the investment. When the Group's share of losses in an associate equals or exceeds its interest in the associate, including any other unsecured receivables, the Group does not recognise further losses, unless it has incurred obligations or made payments on behalf of the associate. If the associate subsequently reports profits, the Group resumes recognising its share of those profits only after its share of the profits equals the share of losses not recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation

(a) *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.

(b) *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 values 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.

(c) *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 (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 the foreign currency translation reserve.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currency translation (Continued)

(c) Translation on consolidation (Continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities and of borrowings are recognised in the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in consolidated profit or loss as part of the gain or loss on disposal.

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.

Property, plant and equipment

Land and buildings comprise mainly factories and offices. Land and buildings are carried at fair values, based on periodic valuations by external independent valuers, less subsequent depreciation and impairment losses. Any accumulated depreciation at the date of revaluation is eliminated against the gross carrying amount of the asset and the net amount is restated to the revalued amount of the asset. All other property, plant and equipment are stated at cost less accumulated depreciation and impairment losses.

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.

Revaluation increases of land and buildings are recognised in profit or loss to the extent that the increases reverse revaluation decreases of the same asset previously recognised in profit or loss. All other revaluation increases are credited to the property revaluation reserve as other comprehensive income. Revaluation decreases that offset previous revaluation increases of the same asset remaining in the property revaluation reserve are charged against the property revaluation reserve as other comprehensive income. All other decreases are recognised in profit or loss. On the subsequent sale or retirement of a revalued land and building, the attributable revaluation increases remaining in the property revaluation reserve is transferred directly to retained profits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Property, plant and equipment (*Continued*)

Depreciation of property, plant and equipment is calculated at rates sufficient to write off their costs/revalued amounts less their residual values over the estimated useful lives on a straight-line basis. The principal useful lives are as follows:

Land and buildings	30 years
Leasehold improvements	Shorter of unexpired lease term or estimated useful life
Plant and machinery	5 years
Furniture, fixtures, office equipment and motor vehicles	3 to 5 years
Moulds and tools	5 years

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

Construction in progress represents buildings under construction and plant and machinery 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.

Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less accumulated impairment losses. Exploration and evaluation assets include the cost of exploration and exploitation rights and the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources. When the technical feasibility and commercial viability of extracting mineral resources become demonstrable, previously recognised exploration and evaluation assets are reclassified as intangible assets and property, plant and equipment.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of exploration and evaluation assets

The carrying amount of the exploration and evaluation assets is adjusted for impairment in accordance with HKAS 36 “Impairment of Assets” whenever one of the following events or changes in circumstances indicate that the carrying amount may not be recoverable (the list is not exhaustive):

- the period for which the Group has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the Group has decided to discontinue such activities in the specific area; or
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

An impairment loss is recognised in the consolidated profit or loss whenever the carrying amount of an asset exceeds its recoverable amount.

Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over its estimated useful lives of 10 years. Subsequent to initial recognition, intangible assets with finite useful lives are carried at cost less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over its estimated useful lives of 10 years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Intangible assets (*Continued*)

Unpatented technology

Unpatented technology is stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated on a straight-line basis over its estimated useful life.

Operating leases

The Group as lessee

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.

The Group as lessor

Leases that do not substantially transfer to the lessees all the risks and rewards of ownership of assets are accounted for as operating leases. Rental income from operating leases is recognised on a straight-line basis over the term of the relevant lease.

Finance leases

The Group as lessee

Leases that substantially transfer to the Group all the risks and rewards of ownership of assets are accounted for as finance leases. At the commencement of the lease term, a finance lease is capitalised at the lower of the fair value of the leased asset and the present value of the minimum lease payments, each determined at the inception of the lease.

The corresponding liability to the lessor is included in the statement of financial position as finance lease payable. Lease payments are apportioned between the finance charge and the reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of interest on the remaining balance of the liability.

Assets under finance leases are depreciated the same as owned assets.

Research and development expenditure

Expenditure on research activities is recognised as an expense in the period in which it is incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined using the first-in, first-out 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.

Recognition and derecognition of financial instruments

Financial assets and financial liabilities are recognised in the 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 is recognised in profit or loss.

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

Financial assets

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

Financial assets of the Group are classified under the following categories:

- Financial assets at amortised cost; and
- Investment at fair value through profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial assets (Continued)

(i) Financial assets at amortised cost

Financial assets (including trade and other receivables) are classified under this category if they satisfy both of the following conditions:

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

They are subsequently measured at amortised cost using the effective interest method less loss allowance for expected credit losses.

(ii) Investments at fair value through profit or loss

Financial assets are classified under this category if they do not meet the conditions to be measured at amortised cost and the conditions of debt investments at fair value through other comprehensive income unless the Group designates an equity investment that is not held for trading as at fair value through other comprehensive income on initial recognition.

Investments at fair value through profit or loss are subsequently measured at fair value with any gains or losses arising from changes in fair values recognised in profit or loss. The fair value gains or losses recognised in profit or loss are net of any interest income and dividend income. Interest income and dividend income are recognised in profit or loss.

Loss allowances for expected credit losses

The Group recognises loss allowances for expected credit losses on financial assets at amortised cost. Expected credit losses are the weighted average of credit losses with the respective risks of a default occurring as the weights.

At the end of each reporting period, the Group measures the loss allowance for a financial instrument at an amount equal to the expected credit losses that result from all possible default events over the expected life of that financial instrument (“lifetime expected credit losses”) for trade receivables or if the credit risk on that financial instrument has increased significantly since initial recognition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Loss allowances for expected credit losses (Continued)

If, at the end of the reporting period, the credit risk on a financial instrument (other than trade receivables) has not increased significantly since initial recognition, the Group measures the loss allowance for that financial instrument at an amount equal to the portion of lifetime expected credit losses that represents the expected credit losses that result from default events on that financial instrument that are possible within 12 months after the reporting period.

The amount of expected credit losses or reversal to adjust the loss allowance at the end of the reporting period to the required amount is recognised in profit or loss as an impairment gain or loss.

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.

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. The accounting policies adopted for specific financial liabilities and equity instruments are set out below.

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 end of the reporting period.

Trade and other payables

Trade and other payables are stated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

Equity instruments

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

Revenue from contracts with customers

Revenue is measured based on the consideration specified in a contract with a customer with reference to the customary business practices and excludes amounts collected on behalf of third parties. For a contract where the period between the payment by the customer and the transfer of the promised product or service exceeds one year, the consideration is adjusted for the effect of a significant financing component.

The Group recognises revenue when it satisfies a performance obligation by transferring control over a product or service to a customer. Depending on the terms of a contract and the laws that apply to that contract, a performance obligation can be satisfied over time or at a point in time. A performance obligation is satisfied over time if:

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

If a performance obligation is satisfied over time, revenue is recognised 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 product or service.

Other revenue

Interest income is recognised using the effective interest method.

Dividend income is recognised when the shareholders' rights to receive payment are established.

Rental income is recognised on a straight-line basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits

(a) 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 at the end of the reporting period.

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

(b) 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 in profit or loss represents contributions payable by the Group to the funds.

(c) 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 costs and involves the payment of termination benefits.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (*Continued*)

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 it excludes items of income or expense that are taxable or deductible in other years and it further excludes 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 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 and associates, and its joint ventures, 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

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.

Related parties

A related party is a person or entity that is related to the Group.

- (a) A person or a close member of that person's family is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Company or of a parent of the Company.
- (b) An entity is related to the Group (reporting entity) if any of the following conditions applies:
 - (i) The entity and the Company are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
 - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
 - (iii) Both entities are joint ventures of the same third party.
 - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
 - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties *(Continued)*

(b) *(Continued)*

- (vi) The entity is controlled or jointly controlled by a person identified in (a).
- (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).
- (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Company or to a parent of the Company.

Segment reporting

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

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

Impairment of assets

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets other than inventories and receivables, to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of any impairment loss. Where it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs.

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of assets (Continued)

If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of amortisation or depreciation) had no impairment loss been recognised for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognised immediately in profit or loss, unless the relevant asset is carried at a revalued amount, in which case the reversal of the impairment loss is treated as a revaluation increase.

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.

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 financial statements. Events after the reporting period that are not adjusting events are disclosed in the notes to the financial statements when material.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. 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 financial statements (apart from those involving estimations, which are dealt with below).

(a) *Split of land and building elements*

The Group determines that the lease payments cannot be allocated reliably between the land and building elements. Accordingly the entire lease of land and buildings is classified as a finance lease and included under property, plant and equipment.

(b) *Legal titles of certain lands and buildings*

As stated in note 19 to the consolidated financial statements, the legal titles of certain lands and buildings held by the subsidiaries of the Company have not been legally transferred as at 31 December 2018. Despite the fact that the Group has not obtained the relevant certificates of legal titles, the Directors determine to recognise those lands and buildings under property, plant and equipment and prepaid land lease payments, on the grounds that they expect the transfer of legal titles in future should have no major difficulties and the Group is in substance controlling those lands and buildings.

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) *Impairment of exploration and evaluation assets*

The Group tests annually whether exploration and evaluation assets have suffered any impairment in accordance with the accounting policy stated in note 3 to the consolidated financial statements. An impairment loss is recognised when the carrying amount of exploration and evaluation assets exceeds their recoverable amount. In determining the recoverable amount, certain estimates have been involved based on the events or changes in circumstances as stated in the accounting policy.

(b) *Impairment of goodwill*

Determining whether goodwill is impaired requires an estimation of the value in use of the cash-generating unit to which goodwill has been allocated. The value in use calculation requires the Group to estimate the future cash flows expected to arise from the cash generating unit and a suitable discount rate in order to calculate the present value. During the year ended 31 December 2018, an impairment of goodwill of HK\$9,977,000 (2017: HK\$36,000,000) was recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(c) *Impairment of intangible assets*

The Group assesses whether there are any indicators of impairment for the intangible asset at the end of each reporting period. Such asset is tested for impairment when there are indicators that the carrying amount may not be recoverable. An impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is higher of its fair value less costs to sell and its value in use. To calculate the fair value less costs of disposal, the management estimates the expected future cash flows from the asset or cash-generating unit and chooses a suitable discount rate in order to derive the present value of those cash flows.

(d) *Impairment loss for bad and doubtful debts*

The Group makes impairment loss for bad and doubtful debts based on assessments of the recoverability of the trade, loans, and other 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 bad and doubtful debts 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 and other receivables and doubtful debt expenses in the year in which such estimate has been changed.

(e) *Property, plant and equipment and depreciation*

The Group determines the estimated useful lives, residual values and related depreciation charges for its property, plant and equipment except land and buildings. 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.

(f) *Income taxes*

The Group is subject to income taxes in several jurisdictions. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

4. CRITICAL JUDGEMENTS AND KEY ESTIMATES (Continued)

Key sources of estimation uncertainty (Continued)

(g) *Fair value of land and buildings*

The Group appointed an independent professional valuer to assess the fair value of the land and buildings. In determining the fair values, the valuer has utilised a method of valuation which involves certain estimates. The directors have exercised their judgement and are satisfied that the method of valuation is reflective of the current market conditions.

(h) *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.

(i) *Deferred tax liabilities*

Recognition of deferred tax liability in relation to the intangible asset of the unpatented technology of microorganism fertilizers are calculated at the effective tax rate with reference to the current tax benefits applying to the subsidiaries of the Company which engage in agricultural business and is eligible for certain tax benefits under the Enterprise Income Tax Law and its Interpretation Rules (the “PRC Tax Law”) and the future profitability and cash flow projections of the business of microorganism fertilizers as approved by the directors of the Company. The effective tax rate will be reviewed by the directors annually to ensure its appropriateness and fairness.

5. 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 will monitor its foreign currency exposure closely and will consider hedging significant foreign currency exposure should the need arise.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT (Continued)

(b) Credit risk

The carrying amount of the cash and bank balances, investment at fair value through profit or loss, trade, loans and other receivables included in the statement of financial position represents the Group's maximum exposure to credit risk in relation to the Group's financial assets.

The Group has policies in place to ensure that sales are made to customers with an appropriate credit history. The credit risk on bank and cash balances is limited because the counterparties are banks with high credit-ratings assigned by international credit-rating agencies.

The Group has significant concentration of credit risk to its trade receivables as the Group's largest customer contributed over approximately 26% (2017: 27%) of the revenue for the year and shared over approximately 34% (2017:28%) of the trade receivables at the end of the reporting period. The Group has policies and procedures to monitor the collection of the trade receivables to limit the exposure to non-recoverable of the receivables and there is no recent history of default for the customer.

The Group considers whether there has been a significant increase in credit risk of financial assets on an ongoing basis throughout each reporting period by comparing the risk of a default occurring as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following information is used:

- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the borrower's ability to meet its obligations;
- actual or expected significant changes in the operating results of the borrower;
- significant increases in credit risk on other financial instruments of the same borrower; and
- significant changes in the expected performance and behaviour of the borrower, including changes in the payment status of borrowers.

A significant increase in credit risk is presumed if a debtor is more than 30 days past due in making a contractual payment. A default on a financial asset is when the counterparty fails to make contractual payments within 90 days of when they fall due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***5. FINANCIAL RISK MANAGEMENT (Continued)****(b) Credit risk (Continued)**

Financial assets are written off when there is no reasonable expectation of recovery, such as a debtor failing to engage in a repayment plan with the Group. The Group normally categorises a receivable for write off when the Group determine that the debtor does not have assets or source of income that could generate sufficient cash flow to repay the amounts subject to write-off. Where receivables have been written off, the Group, if practicable and economical, continues to engage in enforcement activity to attempt to recover the receivable due.

The Group uses two categories for non-trade loan and other receivables which reflect their credit risk and how the loan loss provision is determined for each of the categories. In calculating the expected credit loss rates, the Group considers historical loss rates for each category and adjusts for forward looking data.

Category	Definition	Loss provision
Performing	Low risk of default and strong capacity to pay	12 month expected losses
Non-performing	Significant increase in credit risk	Lifetime expected losses

(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 maturity analysis of the Group's financial liabilities is as follows:

	Less than 1 year HK\$'000	Between 1 and 2 years HK\$'000
At 31 December 2018		
Borrowings	17,015	–
Trade and other payables	128,049	–
Finance lease payables	349	756
	<u>145,413</u>	<u>756</u>
At 31 December 2017		
Borrowings	21,423	–
Trade and other payables	109,599	–
Finance lease payables	362	1,104
	<u>131,384</u>	<u>1,104</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

5. FINANCIAL RISK MANAGEMENT (Continued)

(d) Interest rate risk

The Group's exposure to interest rate risk arises from its bank deposits, borrowings and unsecured other loans.

Secured bank and other loans are arranged at fixed interest rates and expose the Group to fair value interest rate risks. Other bank deposits and borrowings are arranged at floating rates, thus exposing the Group to cash flow interest rate risk.

At 31 December 2018, as the Group has minimal exposure to interest rate risk, the Group's operating cash flows are substantially independent of changes in market interest rates.

(e) 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.

(f) Categories of financial instruments at 31 December

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Financial assets		
Investment at fair value through profit or loss		
– Mandatorily measured	898	1,058
– Designated as such upon initial recognition	14,028	29,422
Financial assets at amortised cost (including cash and cash equivalent)	<u>294,177</u>	<u>490,157</u>
Financial liabilities		
Financial liabilities at amortised cost	<u>144,719</u>	<u>130,262</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FAIR VALUE MEASUREMENTS

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The following disclosures of fair value measurements use a fair value hierarchy that categories into three levels the inputs to valuation techniques used to measure fair value:

Level 1 inputs: quoted prices (unadjusted) in active markets for identical assets or liabilities that the Group can access at the measurement date.

Level 2 inputs: inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly or indirectly.

Level 3 inputs: unobservable inputs for the asset or liability.

The Group's policy is to recognise transfers into and transfers out of any of the three levels as of the date of the event or change in circumstances that caused the transfer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FAIR VALUE MEASUREMENTS (Continued)

(a) Disclosures of level in fair value hierarchy at 31 December:

Description	Fair value measurements using:			Total
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	2018 HK\$'000
Recurring fair value measurements:				
Land and buildings	–	–	63,862	63,862
Investment at fair value through profit or loss				
– Listed equity securities	898	–	–	898
– Convertible bonds	–	–	14,028	14,028
Total recurring fair value measurements	898	–	77,890	78,788

Description	Fair value measurements using:			Total
	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000	2017 HK\$'000
Recurring fair value measurements:				
Land and buildings	–	–	61,465	61,465
Investment at fair value through profit or loss				
– Listed equity securities	1,058	–	–	1,058
– Convertible bonds	–	–	29,422	29,422
Total recurring fair value measurements	1,058	–	90,887	91,945

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***6. FAIR VALUE MEASUREMENTS (Continued)****(b) Reconciliation of assets measured at fair value based on level 3:**

Description	Land and buildings	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At 1 January	61,465	49,616
Total gains or losses recognised in other comprehensive income	7,343	15,732
Total loss recognised in the profit or loss [#]	–	(5,734)
Depreciation	(1,857)	(1,806)
Exchange difference	(3,089)	3,657
At 31 December	63,862	61,465

Land and building[#]

The total gains or losses recognised in other comprehensive income are presented in gain/(loss) on property revaluation in the statement of profit or loss and other comprehensive income.

Total loss recognised in profit or loss including those for assets held at the end of reporting period and presented in loss on revaluation of property, plant and equipment and depreciation in the statement of profit or loss and other comprehensive income.

Description	Convertible bonds	
	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
At 1 January	29,422	27,684
Change in fair value recognised in consolidated profit or loss [#]	(15,394)	1,738
At 31 December	14,028	29,422
Include gains or losses for assets held at end of reporting period: Convertible bonds [#]	(15,394)	1,738

[#] The total gains or losses recognised in profit or loss including those for assets held at end of reporting period are presented in net gain on fair value changes on investment at fair value through profit or loss in the consolidated statement of profit or loss and other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

6. FAIR VALUE MEASUREMENTS (Continued)

(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018:

The Group's directors are responsible for the fair value measurements of assets and liabilities required for financial reporting purposes, including level 3 fair value measurements. Discussions of valuation processes and results are held between the financial controller and the board of directors at least twice a year.

Level 3 fair value measurements

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2018 HK\$'000
Land and buildings	Replacement cost	Market value for the existing use of the land	RMB900 – 1188/m ²	Increase	
		Current cost of replacing the improvements	RMB1,330 – 3,400/m ²	Increase	
		Deduction for physical deterioration and all relevant forms of obsolescence and optimisation	41 – 49%	Decrease	
					<u>63,862</u>
Convertible bonds	Risk free rate method	Discount rate	2.22%	Decrease	<u>14,028</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***6. FAIR VALUE MEASUREMENTS (Continued)****(c) Disclosure of valuation process used by the Group and valuation techniques and inputs used in fair value measurements at 31 December 2018: (Continued)***Level 3 fair value measurements (Continued)*

Description	Valuation technique	Unobservable inputs	Range	Effect on fair value for increase of inputs	Fair value 2017 HK\$'000
Land and buildings	Replacement cost	Market value for the existing use of the land	RMB853 – 942/m ²	Increase	
		Current cost of replacing the improvements	RMB1,180 – 3,410/m ²	Increase	
		Deduction for physical deterioration and all relevant forms of obsolescence and optimisation	43 – 51%	Decrease	<u>61,465</u>
Convertible bonds	Effective interest method	Discount rate	17.5% – 31.12%	Decrease	<u>29,422</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

7. REVENUE

The Group's revenue represents the aggregate of sales value of goods supplied to customers less goods returned, trade discounts and sales tax. The amount of revenue recognised during the year represents manufacture and sale of healthcare and household products, production and trading of agricultural and fertilizers products and interest income from money lending business. An analysis of the Group's revenue for the year is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Manufacture and sale of healthcare and household products	243,570	151,448
Production and trading of agricultural and fertilizers products	39,402	34,089
Revenue from contracts with customers (<i>Note</i>)	282,972	185,537
Interest income from money lending business	16,145	13,681
Total revenue	<u>299,117</u>	<u>199,218</u>

Note:

Disaggregation of revenue from contracts with customers:

Segments	2018		Total <i>HK\$'000</i>
	Healthcare & household products <i>HK\$'000</i>	Agriculture & fertilizers products <i>HK\$'000</i>	
Geographical markets			
United States of America	99,995	–	99,995
The People's Republic of China (the "PRC")	72,224	39,402	111,626
Germany	19,317	–	19,317
France	11,273	–	11,273
United Kingdom	6,458	–	6,458
Japan	1,131	–	1,131
Hong Kong and others	33,172	–	33,172
Total	<u>243,570</u>	<u>39,402</u>	<u>282,972</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***7. REVENUE (Continued)***Note: (Continued)*

Segments	2017		Total HK\$'000
	Healthcare & household products HK\$'000	Agriculture & fertilizers products HK\$'000	
Geographical markets			
United States of America	56,632	–	56,632
The People's Republic of China (the "PRC")	41,496	34,089	75,585
Germany	18,489	–	18,489
France	14,183	–	14,183
United Kingdom	5,363	–	5,363
Japan	2,271	–	2,271
Hong Kong and others	13,014	–	13,014
Total	<u>151,448</u>	<u>34,089</u>	<u>185,537</u>

Revenues from the sales of manufactured goods, trading of raw materials and moulds and trading of agricultural and fertilizer products 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.

Sales to customers are normally made with credit terms of 60 to 180 days. For new customers, cash on delivery may be required.

A receivable is recognised when the products are delivered to the customers as this is the point in time that the consideration is unconditional because only the passage of time is required before the payment is due.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

8. OTHER INCOME

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Income from scrap sales	450	278
Interest income	40	2,032
Rental income	58	300
Government grants	1,041	231
Reversal of impairment of trade receivables	1,133	2,738
Others	1,604	1,856
	<u>4,326</u>	<u>7,435</u>

9. SEGMENT INFORMATION

The Group's reportable segments are strategic business units that offer different products. They are managed separately because each business requires different technology and marketing strategies. The Group has four reportable segments: manufacturing and sales of healthcare and household products, coal mining business, production and trading of agricultural and fertilizers products and money lending business.

The accounting policies of the operating segments are the same as those described in note 3 to the consolidated financial statements. Segment profits or losses do not include amortization of intangible assets, impairment of goodwill, loss on revaluation of property, plant and equipment, net gain/loss on fair value of investment at fair value through profit or loss, reversal of impairment loss on exploration and evaluation assets, impairment of unpatented technology, impairment of other asset, impairment of property, plant and equipment, impairment of loan receivables, gain on bargain purchase and unallocated corporate income and expenses. Segment assets do not include investment at fair value through profit or loss and other unallocated corporate assets. Segment liabilities do not include unallocated corporate liabilities. Segment non-current assets do not include financial instruments and deferred tax assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***9. SEGMENT INFORMATION (Continued)**

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

	Trading of agricultural and fertilizers products <i>HK\$'000</i>	Money lending business <i>HK\$'000</i>	Coal mining business <i>HK\$'000</i>	Healthcare and household business <i>HK\$'000</i>	Total <i>HK\$'000</i>
Year ended 31 December 2018:					
Revenue	39,402	16,145	–	243,570	299,117
Segment profit/(loss)	6,670	13,115	(917)	20,423	39,291
Finance costs	1,072	–	–	793	1,865
Depreciation and amortisation	22,311	–	6	4,389	26,706
Income tax expense	417	–	–	2,632	3,049
Other material non-cash items:					
Reversal of impairment of assets	–	–	(29,410)	–	(29,410)
Impairment of unpatented technology	30,680	–	–	–	30,680
Impairment of property, plant and equipment	9,640	–	–	–	9,640
Impairment of goodwill	9,977	–	–	–	9,977
Additions to segment non-current assets	6,652	–	–	8,579	15,231
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2018					
Segment assets	194,548	130,312	227,339	165,588	717,787
Segment liabilities	21,898	15	–	108,147	130,060
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
Year ended 31 December 2017:					
Revenue	34,089	13,681	–	151,448	199,218
Segment profit/(loss)	8,632	13,665	(904)	(11,916)	9,477
Finance costs	739	–	–	648	1,387
Depreciation and amortisation	17,380	–	1	4,195	21,576
Income tax expense	44	–	–	229	273
Other material non-cash items:					
Reversal of impairment of assets	–	–	(27,310)	–	(27,310)
Impairment of goodwill	36,000	–	–	–	36,000
Additions to segment non-current assets	7,887	–	17	3,199	11,103
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>
At 31 December 2017:					
Segment assets	259,060	101,272	198,501	129,812	688,645
Segment liabilities	23,864	15	–	99,059	122,938
	<u> </u>	<u> </u>	<u> </u>	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (Continued)

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue:		
Total revenue of reportable segments and consolidated revenue	<u>299,117</u>	<u>199,218</u>
Profit or loss:		
Total profit of reportable segments	39,291	9,477
Gain on bargain purchase	111,733	–
Corporate and unallocated loss	<u>(96,085)</u>	<u>(53,852)</u>
Consolidated profit/(loss) for the year	<u>54,939</u>	<u>(44,375)</u>
Assets:		
Total assets of reportable segments	717,787	688,645
Corporate and unallocated assets:		
– Bank and cash balances	1,160	289,784
– Investment at fair value through profit or loss	14,926	30,480
– Interest in an associate	617,424	–
– Others	<u>32,106</u>	<u>13,696</u>
Consolidated total assets	<u>1,383,403</u>	<u>1,022,605</u>
Liabilities:		
Total liabilities of reportable segments	130,060	122,938
Corporate and unallocated liabilities	<u>35,792</u>	<u>26,579</u>
Consolidated total liabilities	<u>165,852</u>	<u>149,517</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***9. SEGMENT INFORMATION (Continued)****Geographical information:**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Revenue:		
United States of America	99,995	56,632
The People's Republic of China (the "PRC")	115,193	75,585
Germany	19,317	18,489
France	11,273	14,183
United Kingdom	6,458	5,363
Japan	1,131	2,271
Hong Kong and others	45,750	26,695
	299,117	199,218

In presenting the geographical information, revenue is based on the locations of the customers. No revenue has been recorded for coal mining business for both years.

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets:		
Indonesia	229,547	199,297
The PRC	170,919	241,855
Hong Kong and others	618,278	2,423
	1,018,744	443,575

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

9. SEGMENT INFORMATION (Continued)

Revenue from major customers:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Healthcare and household business segment		
Customer A	77,552	50,627
Customer B	42,253	21,757
	<u> </u>	<u> </u>

Revenue from above customers individually contributed more than 10% of the total consolidated revenue of the Group.

10. NET (LOSS)/GAIN ON FAIR VALUE CHANGES ON INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
(Loss)/gain on fair value changes on:		
Convertible bonds (note 23)	(15,394)	1,738
Equity securities listed in Hong Kong (note 23)	(160)	(187)
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

11. FINANCE COSTS

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Interests on bank loans	917	709
Interests on other unsecured loans	971	3,950
Finance leases charges	42	48
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>
	<u> </u>	<u> </u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***12. INCOME TAX EXPENSE**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Current tax – PRC Enterprise Income Tax		
– Provision for the year	4,145	273
Deferred tax (<i>note 33</i>)	(1,807)	(88)
	2,338	185

No provision for Hong Kong Profits Tax has been made for the year as the Group did not generate any assessable profits arising in Hong Kong (2017: Nil).

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

The reconciliation between the income tax expense and the profit/(loss) before tax multiplied by Hong Kong Profits Tax rate is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Profit/(loss) before tax	57,277	(44,190)
Tax at the domestic income tax rate of 16.5% (2017: 16.5%)	9,451	(7,291)
Tax effect of non-taxable income	(23,369)	(12,083)
Tax effect of non-deductible expenses	20,274	19,307
Tax effect of temporary differences not recognised	(1,142)	(88)
Tax effect of utilisation of tax losses not previously recognised	(3,717)	(3,252)
Tax effect of tax losses not recognised	231	6,474
Effect of different tax rates of subsidiaries	610	(2,882)
Income tax expense for the year	2,338	185

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

13. PROFIT/(LOSS) FOR THE YEAR

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Auditor's remuneration	880	770
Cost of inventories sold [#]	192,590	136,094
Depreciation	12,439	7,446
Amortisation	15,000	15,000
Net loss/(gain) on fair value changes on investment at fair value through profit or loss	15,554	(1,551)
Reversal of impairment on exploration and evaluation assets	(29,410)	(27,310)
Impairment of goodwill	9,977	36,000
Impairment of unpatented technology	30,680	–
Impairment of other assets	1,374	–
Impairment of property, plant and equipment	9,640	–
Impairment of loan receivables	3,000	–
Net exchange (gains)/losses	(248)	15
Operating lease charges in respect of land and buildings	5,704	5,447
Research and development costs	138	481
Staff costs including directors' emoluments		
– Salaries, bonus and allowances	92,980	74,531
– Retirement benefits scheme contributions	441	445
	93,421	74,976

[#] Cost of inventories sold includes staff costs, depreciation and operating lease charges of approximately HK\$52,302,000 in total (2017: approximately HK\$33,517,000), which are included in the amounts disclosed separately above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS**

The emoluments of each director were as follows:

2018	<i>Notes</i>	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<i>Executive Directors</i>					
Mr. Leung Chung Shan	<i>a</i>	–	2,894	18	2,912
Mr. Au Yeung Yiu Chung		–	325	15	340
Mr. Chan Tat Ming, Thomas		–	650	18	668
Mr. Liu Liyang		–	3,000	18	3,018
Mr. Luo Xiaohong	<i>b</i>	–	125	–	125
Mr. Tam Lup Wai, Franky		–	1,423	18	1,441
<i>Independent Non-executive Directors</i>					
Mr. Hau Chi Kit		132	–	–	132
Mr. Lam Bing Kwan	<i>c</i>	56	–	–	56
Mr. Leung Chi Hung		132	–	–	132
Mr. Li Hon Kuen		132	–	–	132
Total for the year ended 31 December 2018		452	8,417	87	8,956

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)

2017	Notes	Fees HK\$'000	Salaries and allowances HK\$'000	Retirement benefits scheme contributions HK\$'000	Total HK\$'000
<i>Executive Directors</i>					
Mr. Au Yeung Yiu Chung		–	325	15	340
Mr. Chan Tat Ming, Thomas		–	650	18	668
Mr. Liu Liyang		–	3,000	18	3,018
Mr. Luo Xiaohong	<i>b</i>	–	225	–	225
Mr. Tam Lup Wai, Franky		–	1,423	18	1,441
<i>Independent Non-executive Directors</i>					
Mr. Hau Chi Kit		120	–	–	120
Mr. Lam Bing Kwan	<i>c</i>	120	–	–	120
Mr. Leung Chi Hung		120	–	–	120
Mr. Li Hon Kuen		120	–	–	120
Total for the year ended 31 December 2017		<u>480</u>	<u>5,623</u>	<u>69</u>	<u>6,172</u>

Notes:

- a Appointed on 18 January 2018
- b Resigned on 20 July 2018
- c Retired on 4 June 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***14. DIRECTORS' AND EMPLOYEES' EMOLUMENTS (Continued)**

There was no arrangement under which a director waived or agreed to waive any emoluments during the year.

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

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Basic salaries and allowances	2,125	3,663
Retirement benefits scheme contributions	36	54
	2,161	3,717

The emoluments fell within the following bands:

	Number of individuals	
	2018	2017
Emolument band:		
Nil – HK\$1,000,000	1	–
HK\$1,000,001 – HK\$1,500,000	1	3
	2	3

During the year, no emoluments were paid by the Group to any of the directors or the highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

15. DIVIDENDS

The directors do not recommend or declare the payment of any dividend in respect of the years ended 31 December 2018 and 2017.

16. EARNINGS/(LOSS) PER SHARE

Basic earnings/(loss) per share

The calculation of basic earnings/(loss) per share attributable to owners of the Company is based on the profit for the year attributable to owners of the Company of approximately HK\$55,386,000 (2017: loss of approximately HK\$43,664,000) and the weighted average number of ordinary shares of 8,465,233,977 (2017: 1,736,240,588) as adjusted to reflect the impact of open offers as set out in note 35 in issue during the year.

Diluted loss per share

No diluted loss per share is presented as the Company did not have any outstanding dilutive potential ordinary shares during the years ended 31 December 2018 and 2017.

17. OTHER COMPREHENSIVE (LOSS)/INCOME

Items of other comprehensive (loss)/income for the year with their respective related tax effects as follows:

	2018			2017		
	Amount before tax HK\$'000	Tax HK\$'000	Amount after tax HK\$'000	Amount before tax HK\$'000	Tax HK\$'000	Amount after tax HK\$'000
Exchange differences on translating foreign operations	(43,991)	–	(43,991)	9,500	–	9,500
Gain/(loss) on property revaluation	7,343	(1,836)	5,507	15,552	(2,685)	12,867
Other comprehensive loss	<u>(36,648)</u>	<u>(1,836)</u>	<u>(38,484)</u>	<u>25,052</u>	<u>(2,685)</u>	<u>22,367</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***18. EXPLORATION AND EVALUATION ASSETS**

	Exploration and exploitation rights (note a) HK\$'000	Others (note b) HK\$'000	Total HK\$'000
Cost			
At 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018	444,127	17,904	462,031
Accumulated impairment			
At 31 December 2016, 1 January 2017 and 31 December 2017	278,805	11,256	290,061
Reversal of impairment losses (note c)	(26,250)	(1,060)	(27,310)
At 31 December 2017	252,555	10,196	262,751
Reversal of impairment losses (note c)	(27,186)	(2,224)	(29,410)
At 31 December 2018	225,369	7,972	233,341
Carrying amount			
At 31 December 2018	218,758	9,932	228,690
At 31 December 2017	191,572	7,708	199,280

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

18. EXPLORATION AND EVALUATION ASSETS (Continued)

- (a) This represents exploration and exploitation rights in respect of a coal mine in Central Kalimantan, Indonesia. Exploration and exploitation rights are granted for the period from 28 December 2009 to 23 December 2019 and can be extended for 2 times, for 10 years each. In respect of the dramatic drop of coal price in the past years and increasing capital expenditures as expected, the directors of the Company consider it is not the appropriate time to expand its coal business for the year ended 31 December 2018. Therefore, the Group's coal business remains inactive during the year.
- (b) Others represent the expenditures incurred in the search for mineral resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.
- (c) In assessing whether impairment is required for the exploration and evaluation assets, the carrying value is compared with the respective recoverable amount. The recoverable amount is the higher of the asset's fair value less costs of disposal and value in use. The Group engaged an independent valuer, Greater China Appraisal Limited, to determine the fair value of the exploration and evaluation assets. The fair value of exploration and evaluation assets was determined using the market approach as consistent with last year's. The recoverable amount used in assessing the impairment loss is the fair value less costs of disposal. The fair value was determined by reference to the average coal price of actual market transactions multiplied by coal resources of the Group under level 2 fair value measurement.

Based on this evaluation, the recoverable amount of the exploration and evaluation assets exceeded its carrying amount at 31 December 2018. Accordingly, a reversal of impairment loss of approximately HK\$29,410,000 was recognised for the year ended 31 December 2018 (2017: HK\$27,310,000).

- (d) No amortisation is provided as this exploration and exploitation rights are not available for use for the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***19. PROPERTY, PLANT AND EQUIPMENT**

	Land and buildings <i>HKS'000</i>	Leasehold improvements <i>HKS'000</i>	Plant and machinery <i>HKS'000</i>	Furniture, fixtures, office equipment and motor vehicles <i>HKS'000</i>	Moulds and tools <i>HKS'000</i>	Construction in progress <i>HKS'000</i>	Total <i>HKS'000</i>
Cost or Valuation							
At 31 December 2016 and 1 January 2017	49,616	12,001	34,807	28,580	30,229	14,586	169,819
Additions	-	-	1,813	4,053	769	3,458	10,093
Transfers	-	-	3,505	-	-	(3,505)	-
Revaluation	8,117	-	-	-	-	-	8,117
Disposals	-	-	(546)	(531)	(195)	-	(1,272)
Exchange differences	3,732	763	3,185	1,304	1,366	1,095	11,445
At 31 December 2017 and 1 January 2018	61,465	12,764	42,764	33,406	32,169	15,634	198,202
Additions	-	-	4,396	1,363	163	-	5,922
Transfers	-	-	-	-	-	-	-
Revaluation	5,559	-	-	-	-	-	5,559
Impairment loss	-	(2,272)	(2,696)	(178)	-	(4,494)	(9,640)
Disposals	-	-	(229)	(785)	(1)	-	(1,015)
Exchange differences	(3,162)	(561)	(2,614)	(1,005)	(1,024)	(804)	(9,170)
At 31 December 2018	63,862	9,931	41,621	32,801	31,307	10,336	189,858
Accumulated depreciation and impairment							
At 31 December 2016 and 1 January 2017	-	2,071	18,035	25,789	30,093	-	75,988
Charge for the year	1,806	159	2,833	2,223	425	-	7,446
Write back on revaluation	(1,881)	-	-	(203)	-	-	(2,084)
Disposals	-	-	(546)	(63)	(183)	-	(792)
Exchange differences	75	22	1,830	1,101	1,330	-	4,358
At 31 December 2017 and 1 January 2018	-	2,252	22,152	28,847	31,665	-	84,916
Charge for the year	1,857	2,572	5,683	1,942	385	-	12,439
Write back on revaluation	(1,784)	-	-	-	-	-	(1,784)
Disposals	-	-	(224)	(726)	(1)	-	(951)
Exchange differences	(73)	(120)	(1,611)	(858)	(999)	-	(3,661)
At 31 December 2018	-	4,704	26,000	29,205	31,050	-	90,959
Carrying amounts							
At 31 December 2018	63,862	5,227	15,621	3,596	257	10,336	98,899
At 31 December 2017	61,465	10,512	20,612	4,559	504	15,634	113,286

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The analysis of the cost or valuation at 31 December 2018 of the above assets is as follows:

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office equipment and motor vehicles <i>HK\$'000</i>	Moulds and tools <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost 2018	-	9,931	41,621	32,801	31,307	10,336	125,996
At valuation 2018	63,862	-	-	-	-	-	63,862
	<u>63,862</u>	<u>9,931</u>	<u>41,621</u>	<u>32,801</u>	<u>31,307</u>	<u>10,336</u>	<u>189,858</u>

The analysis of the cost or valuation at 31 December 2017 of the above assets is as follows:

	Land and buildings <i>HK\$'000</i>	Leasehold improvements <i>HK\$'000</i>	Plant and machinery <i>HK\$'000</i>	Furniture, fixtures, office equipment and motor vehicles <i>HK\$'000</i>	Moulds and tools <i>HK\$'000</i>	Construction in progress <i>HK\$'000</i>	Total <i>HK\$'000</i>
At cost 2017	-	12,764	42,764	33,406	32,169	15,634	136,737
At valuation 2017	61,465	-	-	-	-	-	61,465
	<u>61,465</u>	<u>12,764</u>	<u>42,764</u>	<u>33,406</u>	<u>32,169</u>	<u>15,634</u>	<u>198,202</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

19. PROPERTY, PLANT AND EQUIPMENT (*Continued*)

- (a) As at 31 December 2018, the Group's land and buildings were revalued by Greater China Appraisal Limited, an independent firm of professional valuer, on the open market value basis with reference to market evidence of recent transactions for similar properties.

The carrying amount of the Group's land and buildings would be approximately HK\$21,817,000 (2017: approximately HK\$24,372,000) had they been stated at cost less accumulated depreciation and impairment losses.

- (b) As at 31 December 2018, certain land and buildings, amounted approximately HK\$52,278,000 (2017: approximately HK\$49,830,000) of the Group were pledged to secure banking facilities granted to the Group (note 38) and the carrying amount of motor vehicles held by the Group under finance leases amounted to approximately HK\$1,258,000 (2017: approximately HK\$1,705,000) (note 32).
- (c) As at 31 December 2018, the Group was in the process of applying for the title certificates of buildings with an aggregate carrying amount of approximately HK\$11,583,000 (2017: approximately HK\$11,635,000). The directors of the Company are of the view that the Group is entitled to lawfully and validly occupy and use the abovementioned buildings in due course, and therefore the aforesaid matter did not have any significant impact on the Group's financial position as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

20. GOODWILL

HK\$'000

Cost

At 31 December 2017 and 2018 45,977

Accumulated impairment losses

At 1 January 2017 –

Impairment loss recognised in the current year 36,000

At 31 December 2017 and 1 January 2018 36,000

Impairment loss recognised in the current year 9,977

At 31 December 2018 45,977

Carrying amount

At 31 December 2018 –

At 31 December 2017 9,977

Goodwill acquired in a business combination is allocated, at acquisition, to the cash generating units (“CGUs”) that are expected to benefit from that business combination. The carrying amount of goodwill had been allocated to the cash generating unit of trading of agricultural and fertilizers products.

Impairment testing of goodwill

Fertilizers and agricultural products cash-generating units

The amount of goodwill is allocated to the cash-generating unit of agricultural and fertilizers products. Goodwill is tested for impairment for this cash-generating units by the management by estimating the recoverable amount of the cash-generating unit based on value in use calculations.

As at 31 December 2018, the value in use calculation uses cash flow projections based on the financial budgets approved by the management covering a 5 year period with the residual period using the growth rate of 3% and with reference to an independent valuation performed by Greater China Appraisal Limited as at 31 December 2018. Key assumptions used by the management in the value in use calculation of the cash-generating unit include budgeted revenue and gross profit margin. The pre-tax discount rate used for estimating the value in use is 18.39% (2017: 18.5%).

The assumptions have been determined based on past performance and management’s expectations in respect of the organic agricultural market in the PRC.

The management is not currently aware of any other probable changes that would necessitate changes in its key estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***21. INTANGIBLE ASSETS**

	Unpatented Technology <i>HK\$'000</i>
Cost	
At 31 December 2017, 1 January 2018 and 31 December 2018	<u>150,000</u>
Accumulated amortisation and impairment losses	
At 31 December 2016 and 1 January 2017	18,750
Amortisation for the year	<u>15,000</u>
At 31 December 2017 and 1 January 2018	33,750
Amortisation for the year	15,000
Impairment loss	<u>30,680</u>
At 31 December 2018	<u>79,430</u>
Carrying amount	
At 31 December 2018	<u>70,570</u>
At 31 December 2017	<u>116,250</u>

The unpatented technology represents technical know-how and technology specification of the microorganism fertilizers held by a subsidiary of the Company. It was stated at cost at initiation less accumulated amortisation and impairment losses. Amortisation is calculated on straight-line basis over its estimated useful life of 10 years. As at 31 December 2018, it is still under the registration of patent. In the opinions of the directors of the Company, the process of registration of patent and its progress is healthy and smoothly, which is within the expectation of the Company.

The Company has carried out an independent review over the intangible asset by engaging an independent valuer, Greater China Appraisal Limited, to conduct an independent assessment of the recoverable amount of the intangible asset with reference made to the profit forecast and cash flow projection as approved by the management and the value in use calculation. As the recoverable amount of the intangible asset is lower than the carrying amount as at 31 December 2018, an impairment of approximately HK\$30,680,000 is recognised for the year ended 31 December 2018 (2017: Nil). The pre-tax discount rate used for estimating the value in use is 18.39% (2017:18.5%) which the directors considered appropriate to reflect the Company's cost of equity.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

22. INTEREST IN AN ASSOCIATE

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Unlisted investment		
Share of net assets	<u>617,424</u>	<u>–</u>

On 16 March 2018, the Group acquired 35% of the issued share capital of Pacific Memory Sdn Bhd (“Pacific Memory”) for a total consideration of approximately HK\$566,709,000, of which HK\$544,828,000 was the investment cost and HK\$21,881,000 was the shareholders loan. The consideration was satisfied by the allotment and issue of 1,569,420,951 ordinary shares of the Company at HK\$0.209 per share of approximately HK\$328,009,000 and the remaining amount of approximately HK\$238,700,000 by cash.

The fair value of the 1,569,420,951 ordinary shares of the Company issued as part of the consideration paid was determined on the basis of the closing market price of the Company’s ordinary shares at the date of completion of the acquisition.

Pacific Memory is engaged in properties development in Malaysia.

The Group recognised a gain on bargain purchase of HK\$111,733,000 in the acquisition of Pacific Memory. The gain on bargain purchase was mainly attributable to the decline in market price of the consideration shares and the appreciation of properties development project at the date of completion of the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***22. INTEREST IN AN ASSOCIATE (Continued)**

The following table shows information of an associate that are material to the Group. This associate is accounted for in the consolidated financial statements using the equity method. The summarised financial information presented is based on the HKFRS financial statements of the associate.

Name	Pacific Memory
Principal place of business/country of incorporation	Malaysia
Principal activity	Properties development in Malaysia
% ownership interest	35%
	HK\$'000
At 31 December 2018	
Current assets	2,394,027
Non-current liabilities	(559,884)
Current liabilities	(70,074)
	<u>1,764,069</u>
Net assets	
	<u>617,424</u>
Year ended 31 December 2018	
Revenue	–
	<u>3,113</u>
Loss for the year (from date of acquisition)	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

23. INVESTMENT AT FAIR VALUE THROUGH PROFIT OR LOSS

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Convertible bonds, at fair value	<i>(a)</i>	14,028	29,422
Equity securities listed in Hong Kong, at fair value	<i>(b)</i>	898	1,058
		14,926	30,480
Analysed as:			
Current assets		898	1,058
Non-current assets		14,028	29,422
		14,926	30,480

Notes:

- (a) On 19 November 2015, the Company acquired the convertible bonds in the principal amount of US\$13,000,000 at the consideration of HK\$20,475,000 in cash. The issuer of the convertible bonds is Union Asia Enterprise Holdings Ltd. (“Issuer”), a company listed on the GEM of the Stock Exchange. The interest of the convertible bonds is 2% per annum and payable in arrear semi-annually starting from the issue date. The maturity date is 12 May 2020. On 9 November 2017, the Issuer announced resumption proposal involving creditors scheme and open offer. The proceed from the open offer (“Creditors Schemes Consideration”) will be paid into the creditor scheme for the settlement of the liabilities of the Issuer. Upon the creditors schemes having become effective, the creditors, including the convertible bond holders, would be entitled to receive the Creditors Schemes Consideration proportionally on a pari passu basis.
- (b) At 31 December 2018, the fair value of the listed equity securities, amounting to approximately HK\$898,000 (2017: approximately HK\$1,058,000), was determined based on the quoted market bid prices of the corresponding listed equity securities.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***24. LOANS AND INTERESTS RECEIVABLES**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Loans receivables	124,000	99,000
Impairment allowance	(3,000)	—
	121,000	99,000
Interests receivables	9,251	2,173
	130,251	101,173
Analysed for reporting purposes as:		
– Non-current assets	—	—
– Current assets	130,251	101,173
	130,251	101,173

The aging analysis of loans receivables prepared based on loan commencement or renewal date set out in the relevant contracts is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 6 months	89,300	80,000
7 to 12 months	31,700	19,000
	121,000	99,000

Loan receivables as at 31 December 2018 represented unsecured loans granted to independent third parties with principal amount of HK\$124,000,000 (2017: HK\$99,000,000) in total, respectively. The directors of the Company monitored the collectability of the loans receivables closely with reference to their respective current creditworthiness and repayment records. As at 31 December 2018, the management believes that these loan receivables are considered fully recoverable except for a receivable amount of HK\$3,000,000 is considered as high risk of default.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

25. OTHER ASSETS

	<i>Notes</i>	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Prepayments			
– Agricultural cooperation project in Inner Mongolia	<i>(a)</i>	2,091	3,163
– Development in online sales system project	<i>(b)</i>	1,070	1,619
		3,161	4,782

Notes:

- (a) Being payment in advance in relation to agricultural cooperation project in Inner Mongolia. During the year ended 31 December 2018, an impairment of approximately HK\$909,000 (2017: Nil) was recognised.
- (b) Being payments in advance in relation to applications development of sales system, production management system and online platform with local PRC applications and IT developers including all related software programs and hardwares and maintenance for promoting sales of the Group's organic agricultural and fertilizer products. During the year ended 31 December 2018, an impairment of approximately HK\$465,000 (2017: Nil) was recognised.

26. INVENTORIES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Raw materials	21,268	19,326
Work in progress	8,631	12,081
Finished goods	11,183	7,375
	41,082	38,782

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***27. TRADE AND OTHER RECEIVABLES**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade receivables and bills receivables	76,889	38,910
Prepayment and deposits	27,541	34,021
Other receivables	32,892	29,646
	137,322	102,577

Included in other receivables are loans to a director of the subsidiaries and his company with an amount of approximately HK\$9,544,000 (2017: approximately HK\$11,557,000) in total as at 31 December 2018. The loans are unsecured, interest-free and have no fixed terms of repayments.

Trade receivables and bills receivables

The Group allows an average credit period of 30 to 180 days to its trade customers. Each customer has a maximum credit limit. For new customers, payment in advance is normally required. The Group seeks to maintain strict control over its outstanding receivables. Overdue balances are reviewed regularly by the directors.

The aging analysis of trade receivables, based on invoiced date, and net of allowance, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 30 days	31,169	9,735
31 to 90 days	21,316	12,793
91 to 180 days	11,073	6,560
Over 180 days	13,331	9,822
	76,889	38,910

As at 31 December 2018, trade receivables and bills receivables of approximately HK\$2,484,000 (2017: approximately HK\$2,573,000) are assigned to a bank for a factoring loan facility as set out in notes 31 and 38 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

28. AMOUNT DUE FROM AN ASSOCIATE

The amounts due from an associate is unsecured, interest-free and have no fixed repayment terms.

29. BANK AND CASH BALANCES

As at 31 December 2018, the bank and cash balances of the Group denominated in RMB amounted to approximately HK\$9,806,000 (2017: approximately HK\$8,543,000). Conversion of RMB into foreign currencies is subject to the PRC's Foreign Exchange Control Regulations.

30. TRADE AND OTHER PAYABLES

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Trade payables and bills payables	36,926	20,467
Accruals and other payables	90,114	88,062
Amounts due to directors	1,009	1,070
	<u>128,049</u>	<u>109,599</u>

Trade payables and bills payables

The aging analysis of the trade payables and bills payables, based on the date of receipt of goods, is as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
0 to 30 days	9,113	7,077
31 to 90 days	15,668	9,265
91 to 180 days	9,217	3,259
Over 180 days	2,928	866
	<u>36,926</u>	<u>20,467</u>

Amounts due to directors are unsecured, interest-free and repayable on demand.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***31. BORROWINGS**

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Unsecured loans from financial institutions	380	380
Secured bank loans	11,161	20,280
Unsecured other loans	3,565	–
Secured factoring loan	1,564	3
	16,670	20,663
Analysed for reporting purposes as:		
– Non-current liabilities	–	–
– Current liabilities	16,670	20,663
	16,670	20,663

The unsecured loans represent loans which are interest free (2017: at 3% per annum over the prevailing prime lending rate offered by The Hong Kong and Shanghai Banking Corporation Limited).

The secured bank loans represent loans which are secured by the corporate guarantee provided by third parties and personal guarantee of the related parties of the subsidiary of the Company. The loans are arranged at floating rate ranging from 5.66% to 6.09% and fixed interest rate ranging from 8.00% to 9.57% per annum.

The factoring loan is secured by charge over the Group's certain trade and bill receivables as set out in note 27 to the consolidated financial statements and is bearing the standard bills rate as quoted by the bank.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

32. FINANCE LEASE PAYABLES

	Minimum lease payments		Present value of minimum lease payments	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Within one year	349	362	318	320
In the second to fifth years, inclusive	756	1,104	728	1,046
	1,105	1,466		
Less: Future finance charges	(59)	(100)		
Present value of lease obligations	1,046	1,366	1,046	1,366
Less: Amount due for settlement within 12 months (shown under current liabilities)			(318)	(320)
Amount due for settlement after 12 months			728	1,046

It is the Group's policy to lease certain of its plant and machinery under finance leases. The lease terms are 4 to 5 years. At 31 December 2018, the effective borrowing rates were 1.80% to 4.28% (2017: 3.62% to 4.28%). Interest rates are fixed at the contract dates and thus expose the Group to fair value interest rate risk. All leases are on a fixed repayment basis and no arrangements have been entered into for contingent rental payments.

All finance lease payables are denominated in Hong Kong dollars.

The Group's finance lease payables are secured by the lessor's title to the leased assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***33. DEFERRED TAX LIABILITIES**

The following are the major deferred tax liabilities and assets recognised by the Group.

	Investment at fair value through profit or loss HK\$'000	Intangible asset HK\$'000	Revaluation of land and buildings HK\$'000	Total HK\$'000
At 1 January 2017	378	3,375	6,487	10,240
Debit to equity for the year	–	–	2,685	2,685
Credit to consolidated profit or loss (note 12)	287	(375)	–	(88)
Exchange differences	–	–	593	593
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2017 and 1 January 2018	665	3,000	9,765	13,430
Debit to equity for the year	–	–	1,836	1,836
Credit to consolidated profit or loss (note 12)	(665)	(1,142)	–	(1,807)
Exchange differences	–	–	(502)	(502)
	<hr/>	<hr/>	<hr/>	<hr/>
At 31 December 2018	–	1,858	11,099	12,957
	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>	<hr/> <hr/>

The deferred tax has been recorded with reference made to the effective tax rate currently applying to the subsidiaries. In the opinions of the directors of the Company, the effective tax rate used by the Company is appropriate to reflect the future profits forecasts of the respective subsidiaries and the tax privilege currently applying to them. The appropriateness and fairness of the effective tax rate would be reviewed by the directors of the Company annually and adjustment where necessary would be made in order to better reflect the actual performance of and the current tax practice applicable to the subject subsidiary.

At the end of the reporting period, the Group has unused tax losses of approximately HK\$15,863,000 (2017: HK\$93,086,000) available for offset against future profits and such losses may be carried forward indefinitely. No deferred tax asset has been recognised for these tax losses due to the unpredictability of future profit streams.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

34. RETIREMENT BENEFIT OBLIGATIONS

Employee retirement benefits

The Group operates a mandatory provident fund scheme (the “MPF Scheme”) under the Hong Kong Mandatory Provident Fund Schemes Ordinance for all qualifying employees in Hong Kong. The MPF Scheme is a defined contribution retirement scheme administered by independent trustees. Under the MPF Scheme, the employer makes contributions to the scheme at 5% – 10% and employees are required to make 5% of the employees’ relevant income, subject to a cap of monthly relevant income of HK\$30,000. Mandatory contributions to the scheme vest immediately.

Subsidiaries incorporated in the PRC participate in various defined contribution retirement plans (“Plans”) organised by local authorities for the Group’s employees in the PRC. The subsidiaries are required to contribute, based on a certain percentage of the basic payroll, to the Plans. The Group has no other obligation for the payment of pension benefits associated with these Plans beyond the annual contributions described above.

35. SHARE CAPITAL

	<i>Notes</i>	Number of shares	Amount <i>HK\$’000</i>
Authorised:			
Ordinary shares of HK\$0.00004 each at 1 January 2017, 31 December 2017, 1 January 2018 and 31 December 2018		25,000,000,000,000	1,000,000
Issued and fully paid:			
Ordinary shares of HK\$0.00004 each at 31 December 2016 and 1 January 2017		1,442,799,400	58
Issue of shares on right issue	<i>(a)</i>	5,771,197,600	231
Ordinary shares of HK\$0.00004 each at 31 December 2017 and 1 January 2018		7,213,997,000	289
Issue of consideration shares	<i>(b)</i>	1,569,420,951	62
Ordinary shares of HK\$0.00004 each at 31 December 2018		8,783,417,951	351

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

35. SHARE CAPITAL (*Continued*)

- (a) On 26 October 2017, the Company entered into an underwriting agreement with an underwriter in respect of the right issue of 5,771,197,600 ordinary shares of HK\$0.00004 each to the qualifying shareholders at a price of HK\$0.055 per share on the basis of four right shares for every ordinary share held on the record date. The right issue was completed on 21 December 2017, and the premium on the issue of shares, amounting to HK\$310,095,000, net of share issue expenses of approximately HK\$7,000,000, was credited to the Company's share premium account.
- (b) On 16 March 2018, 1,569,420,951 ordinary shares of the Company of HK\$0.00004 each were issued at HK\$0.209 per share as part of approximately HK\$328,009,000 of the consideration for acquisition of 35% of the issued shares of Pacific Memory. The premium on the issue of shares of approximately HK\$327,946,000 was credited to the Company's share premium accounts.

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern and to maximise the return to the shareholders through the optimisation of the debt and equity balance.

The Group reviews the capital structure frequently by considering the cost of capital and the risks associated with each class of capital. The Group will balance its overall capital structure through the payment of dividends, new share issues and share buy-backs as well as the issue of new debts, redemption of existing debts or selling assets to reduce debts in order to maintain sufficiency of working capital.

The Group monitors capital on the basis of the debt-to-adjusted capital ratio. This ratio is calculated as net debt divided by adjusted capital. Net debt is calculated as total debts less cash and cash equivalents. Adjusted capital comprises all components of equity (i.e. share capital, share premium, non-controlling interests, accumulated losses and other reserves).

Significant decrease in the debt-to-adjusted capital ratio for the year was mainly attributed to the right issue during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. RESERVES

(a) The amounts of the Group's reserves and movements therein are presented in the consolidated statement of profit or loss and other comprehensive income and consolidated statement of changes in equity.

(b) Reserves of the Company

	Share premium <i>HK\$'000</i>	Contributed surplus <i>HK\$'000</i>	Warrant reserve <i>HK\$'000</i>	Accumulated losses <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2017	19,277	635,891	24,226	(101,963)	577,431
Issue of shares on rights issue (<i>note 35(a)</i>)	310,095	–	–	–	310,095
Loss for the year	–	–	–	(52,588)	(52,588)
	<u>329,372</u>	<u>635,891</u>	<u>24,226</u>	<u>(154,551)</u>	<u>834,938</u>
At 31 December 2017	<u>329,372</u>	<u>635,891</u>	<u>24,226</u>	<u>(154,551)</u>	<u>834,938</u>
At 1 January 2018	329,372	635,891	24,226	(154,551)	834,938
Issue of consideration shares (<i>note 35(b)</i>)	327,946	–	–	–	327,946
Loss for the year	–	–	–	(33,925)	(33,925)
	<u>657,318</u>	<u>635,891</u>	<u>24,226</u>	<u>(188,476)</u>	<u>1,128,959</u>
At 31 December 2018	<u>657,318</u>	<u>635,891</u>	<u>24,226</u>	<u>(188,476)</u>	<u>1,128,959</u>

(c) Nature and purpose of reserves

(i) Share premium account

Share premium represents premium arising from the issue of shares at a price in excess of their par value per share and is not distributable but may be applied in paying up unissued shares of the Company to be issued to the shareholders of the Company as fully paid bonus shares or in providing for the premiums payable on repurchase of shares.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

36. RESERVES (Continued)

c) Nature and purpose of reserves (Continued)

(ii) Contributed surplus

The contributed surplus of the Company arose as a result of the Group reorganisation implemented in preparation for the listing of the Company's shares in 1997 and represented the excess of the then consolidated net assets of the subsidiaries acquired, over the nominal value of the share capital of the Company issued in exchange therefore.

The contributed surplus arose in the years represented the net effect of the capital reduction of the Group.

Under the Companies Act of Bermuda, the contributed surplus account of the Company is available for distribution. However the Company cannot declare or pay a dividend, or make a distribution out of contributed surplus if:

- it is, or would after the payment be, unable to pay its liabilities as they become due; or
- the realisable value of its assets would thereby be less than the aggregate of its liabilities and its issued share capital and share premium accounts.

(iii) Warrant reserve

The warrant reserve represents the proceeds received from the issue of 370,000,000 warrants at a placing price of HK\$0.07 per warrant on 27 November 2003, net of warrant issue expenses. The trading of the warrants on the Stock Exchange had ceased after 2 December 2004 and the listing of the warrants on the Stock Exchange was withdrawn from 4 December 2004. The subscription rights attaching to the 365,880,000 outstanding warrants had expired on 7 December 2004.

(iv) 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 3 to the consolidated financial statements.

(v) Property revaluation reserve

Property revaluation reserve has been set up and are dealt with in accordance with the accounting policies adopted for buildings in note 3 to the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Non-current assets		
Investments in subsidiaries	191,351	191,351
Investment at fair value through profit or loss	14,028	29,422
Deferred tax assets	–	–
	<u>205,379</u>	<u>220,773</u>
Current assets		
Amounts due from subsidiaries	3,116,163	2,510,802
Impairment loss on investments in subsidiaries and amounts due from subsidiaries	(2,143,958)	(2,143,958)
Investment at fair value through profit or loss	898	1,057
Other current assets	2,274	4,026
Bank and cash balances	81	287,330
	<u>975,458</u>	<u>659,257</u>
Current liabilities		
Amounts due to subsidiaries	(37,976)	(39,740)
Borrowings	(2,380)	(380)
Other current liabilities	(11,171)	(4,019)
	<u>(51,527)</u>	<u>(44,139)</u>
Net current assets	<u>923,931</u>	<u>615,118</u>
Total assets less current liabilities	<u>1,129,310</u>	<u>835,891</u>
Non-current liabilities		
Deferred tax liabilities	–	(664)
NET ASSETS	<u><u>1,129,310</u></u>	<u><u>835,227</u></u>
Capital and reserves		
Share capital	351	289
Reserves	1,128,959	834,938
TOTAL EQUITY	<u><u>1,129,310</u></u>	<u><u>835,227</u></u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***38. BANKING FACILITIES**

At 31 December 2018, the Group had banking facilities amounted to approximately HK\$35,474,000 (2017: approximately HK\$42,817,000), which were secured by the followings:

- (a) certain land and buildings, amounted approximately HK\$52,278,000 (2017: approximately HK\$49,830,000) of the Group were pledged to secure banking facilities granted to the Group (note 19); and
- (b) trade and bills receivables of the Group amounted to approximately HK\$2,484,000 (2017: approximately HK\$2,573,000) under factoring arrangement (note 27); and
- (c) guarantee for an unlimited amount duly executed by the Company.

At 31 December 2018, the Group had available approximately HK\$33,910,000 (2017: approximately HK\$34,179,000) undrawn borrowing facilities.

39. LEASE COMMITMENTS

At the end of the reporting period, the total future minimum lease payments under non-cancellable operating leases in respect of certain office premises are analysed as follows:

	2018 <i>HK\$'000</i>	2017 <i>HK\$'000</i>
Within one year	7,951	7,660
In the second to fifth year inclusive	5,953	6,226
After five years	–	1,892
	<hr/> 13,904 <hr/>	<hr/> 15,778 <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

40. NOTE TO CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Major non-cash transaction

Addition to property, plant and equipment during the year of HK\$Nil (2017: HK\$1,600,000) was financed by finance lease.

(b) Changes in liabilities arising from financing activities

The following table shows the Group's changes in liabilities arising from financing activities during the year:

	Interest-bearing borrowings <i>HK\$'000</i>	Finance lease payables <i>HK\$'000</i>	Total liabilities from financing activities <i>HK\$'000</i>
At 1 January 2017	31,714	167	31,881
Changes in cash flows	(11,776)	(401)	(12,177)
Interest paid	(4,707)	–	(4,707)
Non-cash changes			
– interest charged	4,707	–	4,707
– additions to property, plant and equipment	–	1,600	1,600
– exchange difference	725	–	725
	<hr/>	<hr/>	<hr/>
At 31 December 2017 and 1 January 2018	20,663	1,366	22,029
Changes in cash flows	(2,950)	(320)	(3,270)
Interest paid	(1,930)	–	(1,930)
Non-cash changes			
– interest charged	1,930	–	1,930
– exchange difference	(1,043)	–	(1,043)
	<hr/>	<hr/>	<hr/>
At 31 December 2018	<u>16,670</u>	<u>1,046</u>	<u>17,716</u>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

41. RELATED PARTY TRANSACTIONS

In addition to the transactions and balances disclosed elsewhere in these consolidated financial statements, the Group had no other transactions and balances with its related parties during the year.

42. EVENTS AFTER THE REPORTING PERIOD

On 14 September 2018, the Company has entered into the acquisition agreement to acquire 100% equity interest of Hong Kong Zhongzheng City Investment Limited, a company incorporated in the British Virgin Islands with limited liability. The acquisition was approved by the Shareholders of the Company in the Special General Meeting held on 15 January 2019. Completion of the acquisition took place on 21 January 2019. Aggregated consideration of RMB520 million (approximately HK\$597 million) was paid to the vendor as to RMB260 million (approximately HK\$298.5 million) in cash (the “Cash Consideration”) and the remaining balance by way of allotment and issue of the consideration shares at the issue price of HK\$0.154 per consideration share. The Cash Consideration was funded by a shareholder’s loan amount of HK\$300 million with an interest bearing of 2% per annum. For details of the acquisition, please refer to the Company’s announcements dated 16 September 2018, 19 December 2018 and 2 January 2019 and circular dated 21 December 2018.

Since the acquisition was completed on January 2019, there is not sufficient time for the management to prepare the financial statements of the subsidiaries. It is impracticable at this moment to disclose further information about the acquisition.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018

43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY

The table below lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the financial position of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Particulars of the Company's principal subsidiaries at the end of the reporting period are as follows:

Name	Place of incorporation/ registration	Issued/paid-up registered capital	Percentage of the ownership interest/ voting power		Principal activities
			Direct	Indirect	
Dongguan Weihang Electrical Product Company Limited	The PRC	Registered capital US\$9,000,000	–	100%	Manufacturing and trading of healthcare and household products
eForce Management Limited	Hong Kong	Ordinary shares of HK\$2	100%	–	Provision of management services
Fairform Group Limited	BVI	15,700,200 shares of US\$1 each	100%	–	Investment holding
Fairform Manufacturing Company Limited	Hong Kong	Ordinary shares of HK\$138,750,000 and non-voting deferred shares of HK\$250,000	–	100%	Manufacturing and trading of healthcare and household products
Fastport Investments Holdings Limited	BVI	100 ordinary shares of US\$1 each	–	100%	Investment holding
Gainford Internationals Inc.	BVI	50 shares of US\$1 each	–	100%	Investment holding
Oasis Global Limited	BVI	10 shares of US\$1 each	–	100%	Trademark holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS*For the year ended 31 December 2018***43. PARTICULARS OF PRINCIPAL SUBSIDIARIES OF THE COMPANY (Continued)**

Name	Place of incorporation/ registration	Issued/paid-up registered capital	Percentage of the ownership interest/ voting power		Principal activities
			Direct	Indirect	
PT Bara Utama Persada Raya	Republic of Indonesia	4,999 shares of IDR100,000 each	–	99.98%	Own a coal mining concession
PT Karya Dasar Bumi	Republic of Indonesia	1,000 shares of IDR1,000,000 each	–	100%	Investment holding
Smart Guard Limited	BVI	1 share of US\$1	–	100%	Investment holding
遼寧翠京元生態環境發展有限公司 (Liaoning CHYKING YOUNG Ecological Environment Developing Limited Company)#	The PRC	Registered capital US\$1,080,000	–	100%	Production and sales of microorganism fertilizers and agricultural products
東周豐源(北京)有機農業有限公司 (Dongle Vine (Beijing) Organic Agriculture Limited Company)#	The PRC	Registered capital RMB10,070,000	–	95.33%	Cultivation and processing of organic vegetable and fruits
Yixin Holdings Limited	Hong Kong	Ordinary share of HK\$1	100%	–	Money lending

The English name is for identification purpose only

44. APPROVAL OF FINANCIAL STATEMENTS

The financial statements were approved and authorised for issue by the Board of Directors on 29 March 2019.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for the last five financial years, as extracted from the published audited financial statements and reclassified as appropriate, is set out below:

	For the twelve months ended 31 December				
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
RESULTS					
Revenue	<u>184,750</u>	<u>179,455</u>	<u>265,020</u>	<u>199,218</u>	<u>299,117</u>
Operating profit/(loss) after finance costs	(19,940)	(42,305)	(45,140)	(44,190)	57,277
Share of results of a joint venture	<u>407</u>	<u>78</u>	<u>(201)</u>	<u>–</u>	<u>–</u>
Profit/(loss) before tax	(19,533)	(42,227)	(45,341)	(44,190)	57,277
Income tax (expense)	<u>(343)</u>	<u>(7,057)</u>	<u>6,242</u>	<u>(185)</u>	<u>(2,338)</u>
Profit/(loss) for the year	<u>(19,876)</u>	<u>(49,284)</u>	<u>(39,099)</u>	<u>(44,375)</u>	<u>54,939</u>
Attributable to:					
Owners of the Company	(19,876)	(49,090)	(39,237)	(43,664)	55,386
Non-controlling interests	<u>–</u>	<u>(194)</u>	<u>138</u>	<u>(711)</u>	<u>(447)</u>
	<u>(19,876)</u>	<u>(49,284)</u>	<u>(39,099)</u>	<u>(44,375)</u>	<u>54,939</u>
	As at 31 December				
	2014 <i>HK\$'000</i>	2015 <i>HK\$'000</i>	2016 <i>HK\$'000</i>	2017 <i>HK\$'000</i>	2018 <i>HK\$'000</i>
ASSETS AND LIABILITIES					
Total assets	372,312	957,481	731,952	1,022,605	1,383,403
Total liabilities	<u>(112,350)</u>	<u>(665,293)</u>	<u>(147,182)</u>	<u>(149,517)</u>	<u>(165,852)</u>
Net (liabilities)/assets	<u>259,962</u>	<u>292,188</u>	<u>584,770</u>	<u>873,088</u>	<u>1,217,551</u>
Equity attributable to:					
Owners of the Company	259,962	289,479	581,778	869,843	1,214,716
Non-controlling interests	<u>–</u>	<u>2,709</u>	<u>2,992</u>	<u>3,245</u>	<u>2,835</u>
	<u>259,962</u>	<u>292,188</u>	<u>584,770</u>	<u>873,088</u>	<u>1,217,551</u>