

WAI CHUN MINING INDUSTRY GROUP COMPANY LIMITED

(incorporated in the Cayman Islands with limited liability)

(Stock Code : 0660)



2018 ANNUAL REPORT

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Corporate Information

BOARD OF DIRECTORS

Executive Director

Lam Ching Kui (*Chairman and Chief Executive Officer*)

Independent Non-Executive Directors

Chan Chun Wai, Tony
Hau Pak Man
To Yan Ming, Edmond

AUTHORISED REPRESENTATIVES

Lam Ching Kui
Tong Chi Cheong

COMPANY SECRETARY

Tong Chi Cheong

AUDIT COMMITTEE

Chan Chun Wai, Tony (*Chairman*)
Hau Pak Man
To Yan Ming, Edmond

REMUNERATION COMMITTEE

Hau Pak Man (*Chairman*)
Lam Ching Kui
Chan Chun Wai, Tony

NOMINATION COMMITTEE

Lam Ching Kui (*Chairman*)
Chan Chun Wai, Tony
Hau Pak Man

REGISTERED OFFICE

P.O. Box 31119
Grand Pavilion
Hisbiscus Bay
802 West Bay Road
Grand Cayman KY1-1205
Cayman Islands

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

13/F, Admiralty Centre 2
18 Harcourt Road
Admiralty
Hong Kong

AUDITOR

HLM CPA Limited
Certified Public Accountants
Room 305
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

SHARE REGISTRAR IN HONG KONG

Union Registrars Limited
Room 3301-04, 33/F
Two Chinachem Exchange Square
338 King's Road
North Point
Hong Kong

PRINCIPAL BANKERS

The Hong Kong and Shanghai Banking Corporation Limited
Hang Seng Bank Limited

STOCK CODE

Hong Kong Stock Exchange: 0660

COMPANY WEBSITE

<http://www.0660.hk>

On behalf of the board of Directors (the "Board") of Wai Chun Mining Industry Group Company Limited (the "Company"). I would like to present the audited consolidated results of the Company and its subsidiaries (collectively the "Group") for the year ended 31 December 2018.

FINANCIAL REVIEW

Financial Performance

For the year ended 31 December 2018, the Group recorded a revenue of approximately HK\$480,852,000 from operations (2017: approximately HK\$512,133,000), representing an decrease of approximately 6.1% as compared to that of 2017. The Group recorded a gross profit and gross profit margin of approximately HK\$15,522,000 (2017: approximately HK\$12,930,000) and 3.2% (2017: 2.5%) respectively, representing increase of approximately 20% and increase of 0.7% respectively as compared to 2017.

Administrative expenses increased by 19.5% from approximately HK\$19,009,000 in 2017 to approximately HK\$22,716,000 in current year. Selling expenses recorded an increase of 6.3% from approximately HK\$7,013,000 in 2017 to approximately HK\$7,456,000 in current year.

Loss attributable to owners of the Company for the year amounted to approximately HK\$53,617,000 (2017: approximately HK\$17,399,000). The increase in the loss was mainly due to the share based payment expenses of approximately HK\$39,864,000 recognised for the 895,829,070 share options granted under the Company's share option scheme on 16 July 2018.

Modified starch and other biochemical products business

The segment has recorded a turnover approximately HK\$442,961,000 (2017: approximately HK\$476,290,000) during the year. Although a decrease in market demand has caused a slight decrease in turnover, the segment has generated a segment profit approximately HK\$4,025,000 as opposed to the segment loss in 2017 approximately HK\$4,666,000. The turnaround to profit from a loss position is mainly due to the well control on both production cost and operating cost. Therefore, turnover has decreased by 7% while segment profit has increased by 186% when compared that to 2017.

General trading business

The general trading business recorded a revenue of approximately HK\$37,891,000 (2017: approximately HK\$35,843,000) and a segmental profit of approximately HK\$184,000 in 2018 (2017: a segmental profit of approximately HK\$185,000) respectively.

Financial Resources and Position

As at 31 December 2018, the Group had net current liabilities of approximately HK\$84,060,000 (2017: approximately HK\$81,664,000) and cash and cash equivalents of approximately HK\$4,537,000 (2017: approximately HK\$5,822,000). The Group's cash and cash equivalents are mainly denominated in Hong Kong Dollars, Renminbi and United States Dollars. As at 31 December 2018, the current ratio of the Group was approximately 0.47 times (2017: approximately 0.47 times).

Total debts of the Group amounted to approximately HK\$96,151,000 (2017: approximately HK\$94,885,000), comprising borrowings of approximately HK\$62,565,000 (2017: approximately HK\$59,928,000), loans from the ultimate holding company of approximately HK\$33,586,000 (2017: approximately HK\$25,054,000) and amounts due to a non-controlling shareholder of a subsidiary of approximately HK\$Nil (2017: approximately HK\$9,903,000). All the above-mentioned borrowings are denominated in Hong Kong Dollars and Renminbi. All of these borrowings are interest bearing at prevailing market interest rates. The net debts (net of cash and cash equivalents) to total assets ratio of the Group is approximately 62.4% (2017: approximately 60.4%), representing an increase of approximately 3.3% as compared to 2017.

The Group had future minimum lease payments under a non-cancellable operating lease in respect of rented premises amounting to approximately HK\$591,000 (2017: approximately HK\$584,000). On the basis of the undrawn loan facilities of approximately HK\$97,414,000, granted by its ultimate holding company, Oriental Success Ventures Ltd ("Oriental Success"), which will be provided on a subordinated basis, the Directors believe that the Group has sufficient financial resources for its operations. The Directors will remain cautious in the Group's liquidity management.

Chairman's Statement

Foreign Currency Fluctuation

For the year ended 31 December 2018, the Group conducted its business transactions principally in Renminbi and US dollars. The Group has not experienced any material difficulties or negative impact on its operations as a result of fluctuations in currency exchange rates. Accordingly, the Directors considered that the foreign exchange exposure is relatively limited and no hedging of exchange risk is required. As an internal policy, the Group continues to implement a prudent policy on financial management policy and does not participate in any high risk speculative activities. Nevertheless, the management will continue to monitor the foreign exchange exposure and will take prudent measures when needed.

Pledge of Assets and Contingent Liabilities

As at 31 December 2018, the Group had not provided any financial guarantee and did not have any material contingent liabilities. As at 31 December 2018, the Group's prepaid land lease payments with carrying amount of approximately HK\$19,078,000 (2017: approximately HK\$20,587,000) were pledged to secure the bank borrowings.

Dividend

The Board has resolved not to recommend the payment of final dividend for the year ended 31 December 2018.

BUSINESS REVIEW AND OUTLOOK

During the year under review, the Group continued to engage in the manufacture and sale of modified starch and other biochemical products and general trading.

The business of manufacture and sales of modified starch, and other biochemical products recorded segment profit of approximately HK\$4,025,000 (2017: segment loss of approximately HK\$4,666,000). The turnaround to profit from a segment loss position is mainly due to well control on both production cost and operating cost. The business of general trading recorded segment profit of approximately HK\$184,000 during the year (2017: a segment profit of approximately HK\$185,000).

The Group will continue to pursue strategic acquisitions that can enable the Company to capture new business opportunities in the PRC market and to strengthen the revenue and profit fundamentals. The Company has been actively identifying projects with growth potential for acquisitions or investments and has been in discussions with various parties for such acquisitions or investments.

In order to ensure the Group's financial ability to operate as a going concern, the Directors of the Company have been implementing various measures including the provision of loan facilities by the ultimate holding company, conducting negotiation with potential investors to raise sufficient funds; and will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

OTHER INFORMATION

Material Acquisition and Disposal of Subsidiaries

There was no material acquisition and disposal of subsidiaries for the year ended 31 December 2018.

Lam Ching Kui

Chairman

Hong Kong, 29 March 2019

Biographical Details of Directors

EXECUTIVE DIRECTOR

Mr. Lam Ching Kui (“Mr. Lam”), aged 60, has over 27 years of experience in project investments and securities investments. Mr. Lam has been engaged in industrial and residential property development in the PRC and commercial property investment in Hong Kong. He has made investments in listed securities and renewable energy. Mr. Lam is an indirect substantial shareholder of the Company and has been the Chairman and an Executive Director of the Company since December 2007. Mr. Lam is responsible for the overall strategic planning of the Group. Mr. Lam is also the chairman and an executive director of Wai Chun Group Holdings Limited (“Wai Chun Group”), a public listed company in Hong Kong.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Tony Chan Chun Wai (“Mr. Chan”), aged 47, is a Certified Public Accountant (Practicing) of the Hong Kong Institute of Certified Public Accountants and a member of CPA Australia. He is the owner of a CPA practice. He has extensive experience in audit assurance and business advisory services with clients operating in a variety of industries in both Hong Kong and the PRC. Moreover, Mr. Chan also has extensive experience in public listings in Hong Kong and Singapore, mergers and acquisition as well as corporate finance. Before commencing his own practice, Mr. Chan has worked in major international accounting firms and a listed company. Mr. Chan is an independent non-executive director of Hans Energy Company Limited and Honbridge Holdings Limited, whose shares are listed on the Stock Exchange of Hong Kong Limited (the “Stock Exchange”). Mr. Chan has been an Independent Non-executive Director of the Company since May 2007.

Mr. Hau Pak Man (“Mr. Hau”), aged 75, a Hong Kong permanent resident, graduated from Beijing University of Technology in 1966 and obtained a Bachelor degree in Electrical Engineering. He has extensive working experiences in electrical engineering and information technology. Mr. Hau was a member of the Nineth, Tenth, Eleventh, Twelveth National Committee of the Chinese Peoples Political Consultative Conference, a member of the Committee for Liaise with Hong Kong, Macao, Taiwan and Overseas Chinese of the Eleventh, Twelveth National Committee of the Chinese Peoples Political Constructive Conference and Mr. Hau is currently a member of Selection Meeting for Representatives of the Hong Kong Special Administrative Region of The Thirteenth National People’s Congress of the People’s Republic of China (中華人民共和國香港特別行政區第十三屆全國人民代表大會代表選舉會議成員). Mr. Hau has been an Independent Non-executive Director of the Company since November 2012.

Mr. To Yan Ming, Edmond (“Mr. To”), aged 47, holds a bachelor degree in Commerce in Accounting from Curtin University of Technology in Western Australia. He is a Certified Public Accountant practicing in Hong Kong and a director of Edmond To CPA Limited, Asian Alliance (HK) CPA Limited (formerly known as Zhonglei (HK) CPA Company Limited) and R.C.W. (HK) CPA Limited. He was formerly a director of Fortitude CPA Limited. He is a member of both the CPA Australia and Hong Kong Institute of Certified Public Accountants. He worked for one of the international accounting firms, Deloitte Touche Tohmatsu and has extensive experience in auditing, accounting, floatation and taxation matters.

Mr. To was previously an independent non-executive director of China Household Holdings Limited and Theme International Holdings Limited, companies listed on the Main Board of the Stock Exchange. He is currently an independent non-executive director of Courage Investment Group Limited (previously known as Courage Marine Group Limited), Birmingham Sports Holdings Limited (formerly known as Birmingham International Holdings Limited), EPI (Holdings) Limited, SH Group (Holdings) Limited, Tianli Holdings Group Limited and Wai Chun Group Holdings Limited, companies listed on the Main Board of the Stock Exchange. He is also an independent non-executive director of China Vanguard You Champion Holdings Limited (formerly known as China Vanguard Group Limited) and Asia Grocery Distribution Limited, companies listed on the GEM Board of the Stock Exchange. He has been an Independent Non-executive Director of the Company since August 2013.

Report of the Directors

The Directors of the Company submit their report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding and the principal activities of its subsidiaries are set out in note 42 to the consolidated financial statements.

Discussions and reviews of the Group's business and possible risks and uncertainties that the Group may be facing are contained in the Chairman's Statement as set out on pages 3 to 4 of this annual report. The financial risk management objectives and policies of the Group are shown in note 7(b) to the financial statements of this annual report. These discussions form part of this report of the Directors.

RESULTS AND DIVIDEND

The results of the Group for the year ended 31 December 2018 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 40 to 113.

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

PROPERTY, PLANT AND EQUIPMENT

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

SHARE CAPITAL

Details of the movement in the share capital of the Company during the year are set out in notes 31 and 32 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity set out on page 44 and note 41 to the consolidated financial statements.

DISTRIBUTABLE RESERVES

As at 31 December 2018, the Company did not have any reserves available for distribution to its shareholders (2017: Nil).

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Group for each of the five financial years ended 31 December 2018 is set out on page 114 of this annual report.

DIRECTORS

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

Executive Director

Mr. Lam Ching Kui (*Chairman and Chief Executive Officer*)

Independent Non-executive Directors

Mr. Chan Chun Wai, Tony

Mr. Hau Pak Man

Mr. To Yan Ming, Edmond

The biographical details of the Directors of the Company are set out on page 5 of this annual report.

In accordance with Article 99 of the Articles of Association of the Company, Mr. Hau Pak Man and Mr. To Yan Ming, Edmond, shall retire from office by rotation at the forthcoming Annual General Meeting of the Company (“AGM”) and, being eligible, offer themselves for re-election.

CONFIRMATION OF INDEPENDENCE

The Company has received an annual confirmation of independence from each of the Independent Non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange (the “Listing Rules”). The Company, based on such confirmations, considers all the Independent Non-executive Directors are independent.

DIRECTORS’ SERVICE CONTRACTS

Each of the Executive Directors has entered into a service agreement with the Company for a term of not more than three years commencing from their date of appointment, which continues thereafter until terminated by either party giving not less than one month notice in writing to the other party.

Each of the Independent Non-executive Directors has entered into a service agreement with the Company for a term of two years from their date of appointment, which can be terminated by either party giving not less than one month notice in writing to the other party. Each of the Independent Non-executive Directors is subject to the provisions for retirement by rotation and re-election at the AGM in accordance with the Company’s Articles of Association.

No Director proposed for re-election at the forthcoming AGM has service agreement with the Company or any of its subsidiaries which is not determinable within one year without payment of compensation, other than statutory compensation.

DIRECTORS’ REMUNERATION

Details of emoluments of the Directors are set out in note 15 to the consolidated financial statements.

The Directors’ fees are subject to shareholders’ approval at the AGM. Other emoluments are determined by the Company’s Board of Directors with reference to the recommendations from the Remuneration Committee taking into account the Directors’ duties, responsibilities and performance and the results of the Group.

PERMITTED INDEMNITY

Pursuant to the Articles of Association of the Company, every Director shall be entitled to be indemnified by the Company out of the assets of the Company against all costs, charges, losses, expenses and liabilities which he may sustain or incur or about the execution and discharge of his duties or in relation thereto. The Company has arranged appropriate Directors’ and officers’ liability insurance coverage for the Directors and officers of the Company during the year.

Report of the Directors

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS AND CONTRACTS

Save as disclosed below in the section headed "Connected Transactions" and in note 36 to the consolidated financial statements, there are no transactions, arrangements and contracts of significance to which the Company's holding company, subsidiaries or fellow subsidiaries was a party and in which a Director or a connected entity of 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.

COMPETING BUSINESS

None of the Directors had any interests in any business (apart from the Group's business) which competes or is likely to compete, either directly or indirectly, with the businesses of the Group, as defined in the Listing Rules, during the year and up to the date of this report.

INTERESTS OF CONTROLLING SHAREHOLDER IN CONTRACTS

Save as disclosed below in the section headed "Connected Transactions" and in notes 30, 32 and 36 to the consolidated financial statements, there was no contract of significance between the Company or any of its subsidiaries and a controlling shareholder (as defined in paragraph 16 of Appendix 16 to the Listing Rules) or any of its subsidiaries, at any time during the year.

DIRECTORS' INTERESTS OR SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the interests and short positions of the Directors and chief executive in the shares, underlying shares and debentures of the Company or any of, its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO")), which were required pursuant to: (a) divisions 7 to 9 of Part XV of the SFO, to be notified to the Company and the Stock Exchange; (b) section 352 of Part XV of the SFO, to be entered in the register referred to therein; or (c) the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") to be notified to the Company and the Stock Exchange, were as follows:

Long Positions

Name of Shareholder	Capacity	Ordinary shares of HK\$0.0025 each		
		Long position/ Short position	Number of shares/ underlying share held	Approximate percentage of issued share capital
Mr. Lam Ching Kui	Interests of controlled corporations	Long Position	8,179,774,320 (Note)	49.30%

Note: Mr. Lam Ching Kui directly holds 64,750,000 shares and is the beneficial owner of Oriental Success Ventures Limited which is deemed to be interested in 7,898,064,320 shares and 216,960,000 convertible preference shares of the Company held by Chinese Success Limited, a wholly owned subsidiary of Oriental Success Ventures Limited.

Report of the Directors

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

DIRECTORS' RIGHTS TO ACQUIRE SHARES

Save as disclosed below in the section headed "Connected Transactions", at no time during the year was the Company or any of its subsidiaries, a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate, and none of the Directors, or any of their spouses or children under the age of 18, was granted any right to subscribe for equity or debt securities of the Company, nor had exercised any such right.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2018, the register of substantial shareholders maintained by the Company pursuant to Section 336 of the SFO shows that other than the interests disclosed above in respect of Directors, the following shareholders had notified the Company of relevant interests and short positions in the issued share capital of the Company:

Long Positions

Name of Shareholder	Capacity	Ordinary shares of HK\$0.0025 each	
		Number of shares/ underlying share held	Approximate percentage of issued share capital
Lam Ching Kui	Interests of controlled corporations (Note 1)	8,179,774,320	49.30%
Oriental Success Ventures Limited	Interests of controlled corporations (Note 1)	8,115,024,320	48.91%
Chinese Success Limited (Note 1)	Beneficial owner	8,115,024,320	48.91%
Onward Global Investments Limited (Note 2)	Beneficial owner	1,286,350,000	7.75%
Wan Yuzhen (Note 2)	Interests of controlled corporations	1,286,350,000	7.75%
Spring Garden Investments Limited (Note 3)	Beneficial owner	1,286,400,000	7.75%
Zhong Liyan (Note 3)	Interests of controlled corporations	1,286,400,000	7.75%

Report of the Directors

Notes:

- (1) Chinese Success Limited, which is wholly owned by Oriental Success Ventures Limited, holds (i) 7,898,064,320 shares of the Company and (ii) 216,960,000 convertible preference shares of the Company, which is convertible to 216,960,000 shares of the Company. Mr. Lam Ching Kui, the Chairman and Executive Director of the Company, directly holds 64,750,000 shares and is the beneficial owner of the entire issued share capital of Oriental Success Ventures Limited. Mr. Lam Ching Kui is the director of Chinese Success Limited and Oriental Success Ventures Limited.
- (2) These 1,286,350,000 shares of the Company were held by Onward Global Investments Limited which is wholly-owned by Wan Yuzhen. For the purpose of SFO, Wan Yuzhen is deemed to be interested in these 1,286,350,000 shares held by Onward Global Investments Limited.
- (3) These 1,286,400,000 shares of the Company were held by Spring Garden Investments Limited which is wholly-owned by Zhong Liyan. For the purpose of SFO, Zhong Liyan is deemed to be interested in these 1,286,400,000 shares held by Spring Garden Investments Limited.

Save for the shareholders as disclosed herein, the Directors and the chief executive of the Company are not aware of any persons who, as at 31 December 2018, were entitled to exercise or control the exercise of 5% or more of the voting power at general meetings of the Company and were also, as a practicable matter, able to direct or influence the management of the Company.

SHORT POSITIONS IN SHARES AND UNDERLYING SHARES IN THE COMPANY

As at 31 December 2018, the Company had not been notified of any short positions being held by any substantial shareholder in the shares or underlying shares of the Company.

OTHER PERSONS

As at 31 December 2018, the Company had not been notified of any interests or short positions being held by any person (other than the Directors and chief executives and the substantial shareholders as disclosed above) in the share capital of the Company that was required to be disclosed under Division 2 and 3 of Part XV of the SFO and the Listing Rules.

EQUITY-LINKED AGREEMENT

Convertible Preferences Shares

Details of the convertible preference shares are set out in note 32 to the consolidated financial statements.

SHARE OPTION SCHEME

The share option scheme was adopted by the Company on 22 July 2015 (“Share Option Scheme”). Particulars of the Share Option Scheme and detail of share options granted under the Share Option Scheme during the financial year are set out in note 37 to the consolidated financial statements.

RETIREMENT BENEFITS SCHEME

Particulars of the retirement benefits scheme of the Group are set out in note 33 to the consolidated financial statements.

MANAGEMENT CONTRACTS

During the year under review, no management and administrative contracts regarding the entire or any major businesses of the Company have been entered into or have existed.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuer (the “Model Code”) set out in Appendix 10 to the Listing Rules as the code of conduct regarding securities transactions by the Directors. All directors have confirmed, following specific enquiries by the Company that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

CONNECTED TRANSACTIONS

Continuing Connected Transaction

A tenancy agreement was entered into between Wai Chun Holdings Group Limited as landlord and Wai Chun Incorporation Limited, a wholly-owned subsidiary of the Company, as tenant on 23 October 2013 in relation to the left portion of 13/F, Admiralty Centre, Tower II, 18 Harcourt Road, Hong Kong, the principal place of business in Hong Kong for a term of two years commencing from 1 November 2017 to 31 October 2019, both days inclusive, with a rental of HK\$292,242 per calendar month (equivalent to HK\$3,506,904 per annum), exclusive of management fee, rates, government rent, utilities charges and all other outgoing charges per calendar month.

Wai Chun Holdings Group Limited is owned as to 50% by Mr. Lam Ching Kui and as to the remaining 50% by Ms. Chan Oi Mo. Mr. Lam Ching Kui is a controlling shareholder of the Company and is interested in approximately 47.99% of the issued share capital of the Company and Ms. Chan Oi Mo is the spouse of Mr. Lam Ching Kui. Accordingly, Wai Chun Holdings Group Limited is regarded as a connected person of the Company under the Listing Rules. Therefore, the tenancy agreement constitutes a continuing connected transaction for the Company under Rule 14A.14 of the Listing Rules.

The aggregate rental payable under the tenancy agreement per annum, being HK\$3,506,904, represents less than 5% of the applicable percentage ratios (as defined in the Listing Rules) for the Company on an annual basis. Accordingly, pursuant to Rule 14A.34 of the Listing Rules, the tenancy agreement is subject to reporting, announcement and annual review requirements but no approval of independent shareholders of the Company is required.

Annual Review

Pursuant to Rule 14A.55 of the Listing Rules, the Independent Non-executive Directors of the Company have reviewed the above continuing connected transaction and in their opinion, the transaction was made:

- (1) in the ordinary and usual course of business of the Group;
- (2) on normal commercial terms; and
- (3) in accordance with the relevant agreement governing it on terms that were fair and reasonable and in the interests of the shareholders of the Company as a whole.

The Company’s auditor was engaged to report on the Group’s continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 “Assurance Engagements Other Than Audits or Reviews of Historical Financial Information” and with reference to Practice Note 740 “Auditor’s Letter on Continuing Connected Transactions under the Hong Kong Listing Rules” issued by the Hong Kong Institute of Certified Public Accountants. The auditor has issued his unqualified letter containing his findings and conclusions in respect of the continuing connected transactions disclosed by the Group in page 11 of the Annual Report in accordance with Main Board Listing Rule 14A.56 stating that none of the following has come to his attention:

Report of the Directors

- (1) that the Transactions have not been approved by the Board of the Company;
- (2) that the Transactions were not entered into, in all material aspects, in accordance with the relevant agreements governing such Transactions; and
- (3) that the amounts of the Transactions have exceeded the annual caps announced by the Company.

A copy of the auditor's letter has been provided by the Company to The Stock Exchange of Hong Kong Limited.

Compliance with Disclosure Requirements

Save as above disclosed in the "Connected Transactions" section and "Rental expenses" in the amount of HK\$3,506,904 for the year as shown in note 36 – "Related party transactions" to the consolidated financial statements which constituted connected transactions of the Company under Chapter 14A of the Listing Rules, all other transactions as shown in note 36 are connected transactions exempted from announcement, reporting, annual review and independent shareholders' approval requirements under Chapter 14A of the Listing Rules. The Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules in respect of the above connected transactions.

PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, as at the date of this report, there is sufficient public float of not less than 25% of the Company's issued shares as required under the Listing Rules.

MAJOR CUSTOMERS AND SUPPLIERS

During the year, the five largest customers of the Group accounted for approximately 64% of total turnover and sales to the largest customer accounted for approximately 20%. The five largest suppliers of the Group in aggregate accounted for about 75% of its operating costs for the year. Purchases from the largest supplier accounted for about 58% of its operating costs. None of the Directors, their associates, or any shareholder (who to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the Group's five largest customers or suppliers.

PRE-EMPTIVE RIGHTS

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

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

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any of the Company's listed securities during the year ended 31 December 2018.

TAX RELIEF AND EXEMPTION

The Company is not aware of any tax relief and exemption available to shareholders by reason of their holding of Company Securities.

EMOLUMENT POLICY

As at 31 December 2018, the Group had a total of 160 employees, the majority of whom are situated in the PRC. In addition to offer competitive remuneration packages to employees, discretionary bonuses and share options may also be granted to eligible employees based on individual performance.

The Group also encourages its employees to pursue a balanced life and provides a good working environment for its employees to maximise their potential and contribution to the Group.

The remuneration committee of the Company, having regard to the Company's operating results, individual performance and comparable market statistics, decides the emoluments of the Directors. No Director, or any of his associates, and executive, is involved in dealing his own remuneration.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE

Details of the environmental, social and governance of the Group are set out in the section headed "Environmental, Social and Governance Report" in this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Board considers compliance with laws and regulations an important element in the business operation of the Group. The Group's major production facilities and over half of its sales are located in China and compliance with domestic laws and regulations in China is particularly important. The Group has specific personnel to handle and update compliance works in China and they also have the assistance from external legal advisors. The Board considers that the Group's compliance with laws and regulations in China is well monitored.

RELATIONSHIPS WITH STAKEHOLDERS

The Group provides a harmonious and professional working environment to employees and ensures they all are reasonable remunerated. The Company regular reviews and updates its policies on remuneration and benefits, training, occupational health and safety.

The Group also recognises that it is important to maintain good relationship with business partners to achieve its long-term goals. During the year, there was no material and significant dispute between the Group and its business partners.

CORPORATE GOVERNANCE

Details of the corporate governance of the Group are set out in the section headed "Corporate Governance Report" in this annual report.

AUDITOR

The consolidated financial statements for the year ended 31 December 2018 were audited by HLM CPA Limited who will retire and seek for re-election at the forthcoming AGM.

On behalf of the Board

Lam Ching Kui
Chairman

Hong Kong, 29 March 2019

Corporate Governance Report

The Directors and other members of the management team of the Company are dedicated to maintain high standards of corporate governance. They will continue to exercise leadership, enterprise, integrity and judgement so as to achieve continuing prosperity and to act in the best interests of the Company and its shareholders in a transparent and responsible manner. Strategic development with prudence and adherence to ethical principles form the cores of the Company's corporate governance practices.

The Company continues to devote efforts on promoting good corporate governance so as to ensure its ability to attract investment, protect the rights of shareholders and stakeholders, and enhance shareholders' value.

CORPORATE GOVERNANCE

The Company has adopted the code provisions in the Code on Corporate Governance Practices (the "Code") set out in Appendix 14 to the Listing Rules as its own code on corporate governance practices. The Company has taken various measures to cope with the latest development in the corporate governance regime.

The Company complied with the code provisions as set out in the Code throughout the year ended 31 December 2018 except that under code provision A.2.1, the roles of the chairman and chief executive officer should be separated and should not be performed by the same individual. The Company does not at present separate the roles of the chairman and chief executive officer. Mr. Lam Ching Kui is the chairman and chief executive officer of the Company. He has extensive experience in project management and securities investments and is responsible for the overall corporate strategies, planning and business development of the Group. The balance of power and authorities is ensured by the operation of the Board which comprised of experienced and high caliber individuals with sufficient number thereof being independent non-executive directors.

BOARD OF DIRECTORS

Composition of the Board

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

Executive Director

Mr. Lam Ching Kui (*Chairman and Chief Executive Officer*)

Independent Non-executive Directors

Mr. Chan Chun Wai, Tony

Mr. Hau Pak Man

Mr. To Yan Ming, Edmond

Responsibilities

The Board has a balance of skill and experience and a balanced composition of Executive and Non-executive Directors and is responsible for oversight of the management of the Company's business and affairs. The Board has delegated the day-to-day responsibility to the Executive Director(s) and senior management of the Company.

The Board, led by the Chairman and the Chief Executive Officer, is responsible for formulation and approval of the Group's development, business strategies, policies, annual budgets and business plans, recommendation of any dividend and supervision of management.

Corporate Governance Report

The Chairman and Chief Executive Officer seeks to ensure that all Directors are properly briefed on issues brought up at Board meetings and receive adequate and reliable information in relation to matters discussed at Board meetings and also other affairs of the Group on a timely basis.

The Chairman and Chief Executive Officer is responsible for day-to-day management of the Company's operations, financial management and the effective implementation of the overall strategies and initiatives adopted by the Board.

The Company considers that internal control system and risk management function are essential, and the Board plays an important role in implementing and monitoring internal control system and risk management function.

During the year ended 31 December 2018, the Board at all times met the requirements of the Listing Rules relating to the appointment of at least three Independent Non-executive Directors with at least one Independent Non-executive Director possessing appropriate professional qualifications, or accounting or related financial management expertise.

In the course of discharging their duties, the Directors act in good faith, with due diligence and care, and in the best interests of the Company and its shareholders. Their responsibilities include:

- attending regular Board meetings focusing on business strategy, operational issues and financial performance;
- active participation on the boards of subsidiaries and associated companies;
- approval of annual budgets for each operating company covering strategy, financial and business performance, key risks and opportunities;
- monitoring the quality, timeliness, relevance and reliability of internal and external reporting;
- monitoring and managing potential conflicts of interest of the Board, senior management and shareholders;
- consideration of misuse of corporate assets and abuse in related party transactions; and
- ensuring processes are in place to maintain the overall integrity of the Company, including financial statements, relationships with suppliers, customers and other stakeholders, and compliance with all laws and ethics.

To enable the Directors to meet their obligations, an appropriate organisational structure is in place with clearly defined responsibilities and limits of authority.

Appointment, Re-election and Removal of Directors

The appointment of all the Directors, including Independent Non-executive Directors, is for a specific term of not more than three years from date of appointment. The Company's Articles of Association provides for the retirement of Directors by rotation and any new director appointed to fill a casual vacancy shall submit himself/herself for re-election by shareholders at the first general meeting following the appointment.

Corporate Governance Report

The procedures and process of appointment, re-election and removal of directors are set out in the Company's Articles of Association. The Board is responsible for the reviewing its composition, monitoring the appointment of directors and assessing the independence of the Independent Non-executive Directors.

Board Meetings

During the year ended 31 December 2018, the Board held four regular board meetings. In addition, board meetings are convened when necessary to deal with everyday matters that require the Board's prompt decision, and are usually attended by Executive Directors only. The Directors attended the meetings in person or through electronic means of communication. The attendance of each Director is set out as follows:

Name of Directors	Number of meetings attended/held
Mr. Lam Ching Kui	4/4
Mr. Chan Chun Wai, Tony	4/4
Mr. Hau Pak Man	4/4
Mr. To Yan Ming, Edmond	4/4

General Meetings

During the year ended 31 December 2018, the annual general meeting of the Company was held on 27 June 2018. The attendance of each Director is set out as follows:

Name of Directors	Number of meetings attended/held
Mr. Lam Ching Kui	1/1
Mr. Chan Chun Wai, Tony	1/1
Mr. Hau Pak Man	1/1
Mr. To Yan Ming, Edmond	1/1

Board Process

Directors are provided with relevant information to make informed decisions. The Board and each Director have separate and independent access to the Company's senior management for information and making enquires if necessary. In addition, Directors may seek independent professional advice in appropriate circumstances at the Company's expenses.

Every Director is entitled to have access to the advice and services of the Company Secretary with a view to ensure that the Board procedures, and all applicable rules and regulations, are complied with. All minutes are kept by the Company Secretary and are opened for inspections by any Director during normal office hours by giving reasonable advance notice.

If a substantial shareholder or a Director has a conflict of interest in a matter before the Board, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

Corporate Governance Report

Directors' Training

According to the code provision A.6.5 of the CG Code, all Directors should participate in continuous professional development to develop and refresh their knowledge and skills to ensure that their contribution to the Board remains informed and relevant.

All Directors have participated in continuous professional development by way of receiving in-house briefing, taking part in training relating to the Listing Rules and corporate governance matters or attending seminars relating to their role as a director of listed issuer. Each of the Directors has provided a record of training they received for the year ended 31 December 2018 to the Company.

Chairman and Chief Executive Officer

Mr. Lam Ching Kui, the Chairman of the Company, was also appointed as the Chief Executive Officer of the Company. The Board believes that vesting the roles of both chairman and chief executive officer in the same person has the benefit of ensuring consistent leadership within the Group and enables more effective and efficient overall strategic planning for the Group. The Board believes that the balance of power and authority for the present arrangement will not be impaired and is adequately ensured by current Board which comprises experienced and high calibre individuals with sufficient number thereof being Independent Non-executive Directors.

Independent Non-executive Directors

The three Independent Non-executive Directors are persons of high calibre, with academic and professional qualifications in the fields of accounting or electrical engineering. With their experience gained from various sectors, they provide strong support towards the effective discharge of the duties and responsibilities of the Board. Each Independent Non-executive Director has given an annual confirmation of his independence to the Company, and the Company considers each of them to be independent under Rule 3.13 of the Listing Rules.

All Independent Non-executive Directors have been appointed for a term of two years from their date of appointment. Each of the Independent Non-executive Directors is subject to retirement by rotation and re-election at the AGM of the Company in accordance with the Company's Articles of Association.

BOARD COMMITTEES

The Company has set up three committees of the Board, including the Remuneration Committee, Audit Committee and Nomination Committee of the Company, with specific terms of reference relating to their authority and duties, which strengthen the Board's functions and enhance its expertise.

Remuneration Committee

The Remuneration Committee comprises one Executive Director and two Independent Non-executive Directors. Mr. Hau Pak Man is the Chairman of the Remuneration Committee.

Corporate Governance Report

The primary function of the Remuneration Committee is to make recommendations to the Board on the Company's policy and structure for all remuneration of Directors and senior management. The Company's emolument policy is to ensure that the remuneration offered to employees including Executive Directors and senior management is based on the skills, knowledge, responsibilities and involvement in the Company's affairs. The remuneration packages are also determined by reference to the Company's performance and profitability, remuneration level in the industry and the prevailing market conditions. The emolument policy for Independent Non-executive Directors, mainly comprising Directors' fees, is subject to annual assessment with reference to the market standard. Individual Director and senior management would not be involved in deciding their own remuneration.

The model of remuneration committee described in code provision B.1.2(c)(ii) of the CG Code has been adopted by the Remuneration Committee.

During the year ended 31 December 2018, the Remuneration Committee held one meeting, with attendance record as follows:

Name of Directors	Number of meetings attended/held
Mr. Hau Pak Man (<i>Chairman</i>)	1/1
Mr. Lam Ching Kui	1/1
Mr. Chan Chun Wai, Tony	1/1

During the year under review, the Remuneration Committee reviewed matters relating to remuneration packages of Directors and senior management.

Audit Committee

The Company has an audit committee (the "Audit Committee") which was established in accordance with the requirements of the Listing Rules for the purpose of reviewing and providing supervision over the Group's financial reporting process and internal controls. A meeting of the Audit Committee was held to review the Group's audited consolidated financial statements for the year ended 31 December 2018, in conjunction with the Group's external auditor, HLM CPA Limited.

During the year ended 31 December 2018, the Audit Committee held two meetings, with attendance record as follows:

Name of Directors	Number of meetings attended/held
Mr. Chan Chun Wai, Tony (<i>Chairman</i>)	2/2
Mr. Hau Pak Man	2/2
Mr. To Yan Ming, Edmond	2/2

Corporate Governance Report

At the meetings, the Audit Committee reviewed the audited financial statements for the year ended 31 December 2018 and the interim report for the six months ended 30 June 2018 respectively. The Audit Committee has also reviewed the Group accounting principles and practices, Listing Rules and statutory compliance and financial reporting matters. The Audit Committee is satisfied with their review of the independence of the auditor and their audit process for the year ended 31 December 2018.

The Group's results and consolidated financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Nomination Committee

The Nomination Committee comprises one Executive Director and two Independent Non-executive Directors. Mr. Lam Ching Kui is the Chairman of the Nomination Committee.

The primary function of the Nomination Committee is to make recommendations to the Board on new appointment and re-appointment of directors and senior management. New directors are sought mainly through referrals and internal promotions. In evaluating whether an appointee is suitable to act as a Director, the Board will consider his/her qualifications, experience, expertise and knowledge with reference to the Diversity Policy adopted by the Board during the year and the requirements under the Listing Rules.

During the year ended 31 December 2018, the Nomination Committee held one meeting, with attendance record as follows:

Name of Directors	Number of meetings attended/held
Mr. Lam Ching Kui (<i>Chairman</i>)	1/1
Mr. Hau Pak Man	1/1
Mr. Chan Chun Wai, Tony	1/1

Corporate Governance Functions

The Company's corporate governance functions are carried out by the Board in compliance with the CG Code.

The corporate governance functions currently performed by the Board are to develop and review the Company's policies and practices on corporate governance to comply with the CG Code and other legal or regulatory requirements; to oversee the Company's orientation program for new Director; to review and monitor the training and continuous professional development of Directors and senior management; to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and to review the Company's disclosure in the Corporate Governance Report.

During the year ended 31 December 2018, the Board has reviewed the Company's policies and practices on corporate governance, the training and continuous professional development of the Directors and senior management as well as the Company's compliance with the CG Code.

Corporate Governance Report

COMPANY SECRETARY

The company secretary of the Company, Mr. Tong Chi Cheong, is responsible for supporting the Board, ensuring good information flow within the Board and Board policy and procedures are followed, advising the Board on governance matters, facilitating induction and professional development of Directors. He has attained no less than 15 hours of relevant professional training during the year.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding Directors' securities transactions on terms no less exacting than the required standard set out in the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules (the "Model Code"). The Company has made specific enquiries to all Directors and all Directors have confirmed with the Company that they have complied with the required standard set out in the Model Code and the Company's code of conduct regarding Directors' securities transactions during the year.

EXTERNAL AUDITOR AND ITS REMUNERATION

HLM CPA Limited, the external auditor of the Company, shall retire and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLM CPA Limited as auditor of the Company is to be proposed at the forthcoming AGM.

HLM CPA Limited provided services in respect of the audit of Company's consolidated financial statements which were prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") for the year ended 31 December 2018. HLM CPA Limited also reviewed the 2018 unaudited interim financial information of the Company, which was prepared in accordance with HKFRSs.

The total fees charged by HLM CPA Limited in respect of audit services for the year ended 31 December 2018 amounted to HK\$500,000.

Description of non-audit services performed by HLM CPA Limited

Fee Paid

HK\$

Interim review of financial statements of the Company and its subsidiaries
for the six months ended 30 June 2018

128,000

DIRECTORS' RESPONSIBILITY IN PREPARING CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge that their responsibilities for preparing the consolidated financial statements and ensuring that the preparation of the accounts is in accordance with statutory requirements and applicable accounting standards.

The statement of the Auditors of the Company regarding their reporting responsibilities for the consolidated financial statements is set out in the Independent Auditor's Report on pages 40 to 45 of this annual report.

GOING CONCERN

The Directors, having made appropriate enquiries, consider that the Company has adequate resources to continue in operational existence for the foreseeable future and that, for this reason, it is appropriate to adopt the going concern basis in preparing the consolidated financial statements.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems and reviewing their effectiveness on an ongoing basis. Such risk management and internal control systems are designed for managing risks rather than eliminating the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss. The objective is to cover all important controls, including financial, operational, compliance, and risk management functions to endure they are in place and functioning effectively for the Group.

The successful management of risk is essential for the long term growth and sustainability of the Group's business. These can only be achievable if certain risks are managed effectively. Effective risk management and strong internal controls are integral to the Group's business model and are reflected in the risk management policy adopted within the business.

Policy

The Group's risk management policy includes the following elements:

- Identification of significant risks in the Group's operation environment and evaluate the impacts of those;
- Develop necessary measure to manage those risks;
- Risk and mitigate measures with risk ownership will be documented in a risk register; and
- Risk register will be monitored and reviewed the effectiveness of such measures regularly.

The Board has delegated the Audit Committee to perform its responsibilities of risk management and internal control systems by performing the following:

- Oversees the Group's risk management and internal control systems on an ongoing basis;
- Reviews the effectiveness of the Group's risk management and internal control systems annually, and such review should cover all material controls including financial, operational and compliance control;
- Considers major findings on risk management and internal control matters, implementation of the mitigation activities by the management team, and reports and makes recommendations to the Board.

Internal Audit

The Group's internal audit function is performed by an outsourced internal audit team, which reports directly to the Audit Committee of the Group.

Corporate Governance Report

The report provided internal audit findings and any action to be taken by management as a result. These findings and recommendations for improvement will be communicated to the respective management for their responses and corrective actions. The Group's management team monitors the implementation of its recommendations reports the outcome to the Audit Committee.

The Board considers the Group internal control system and risk management is adequate and effective for the financial year.

SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. An AGM of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an AGM, shall be called an extraordinary general meeting.

Shareholders to convene an extraordinary general meeting

Shareholders may convene an extraordinary general meeting of the Company according to the provisions as set out in the Articles of Association and the Companies Law of Cayman Islands. The procedures that shareholders can use to convene an extraordinary general meeting are set out in Article 57 of the Company's Articles of Association.

Putting Enquiries by Shareholders to the Board

Shareholders may send written enquiries to the Company for the attention of the Company Secretary at the Company's principal place of business in Hong Kong.

Procedures for Putting Forward Proposals by Shareholders at Shareholders' Meeting

There are no provisions allowing shareholders to move new resolutions at general meetings under the Cayman Islands Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene an extraordinary general meeting following the procedures set out in the preceding paragraph.

CONSTITUTIONAL DOCUMENTS

During the year, a special resolution was passed by the Shareholders on the AGM held on 27 June 2018 to make certain amendments to the Articles of Association for the purpose of conforming to the latest Listing Rules and the Stock Exchange's requirements.

Environmental, Social and Governance Report

OVERVIEW

This is the third Environmental, Social and Governance (“ESG”) report by Wai Chun Mining Group Company Limited (the “Company”, together with its subsidiaries, the “Group”) reviewing and reporting its environmental and social obligations performance in accordance with the requirements of the Appendix 27 ESG Reporting Guide (“Reporting Guide”) of the Listing Rules Governing the Listing of Securities on the Main Board of the Hong Kong Stock Exchange (“HKEx”) and the Reporting Guide’s principles of Materiality, Quantitative, Balance and Consistency.

REPORTING PERIOD, OBJECTIVES AND SCOPE

Reporting Period: 1 January 2018 to 31 December 2018

ESG Objectives: As stated in its previous ESG reports, the Group is committed to be a successful operator in its business operations, bringing returns to its investors and supporters, giving a healthy and safe working environment to its employees, and helping to provide sustainable developments for the local communities and the Group. The Group has been operating as an open, transparent, and fair enterprise with serious consideration of the environmental and social responsibilities with its business objectives. The Board has taken into account of the listed environmental and social areas and aspects in the Reporting Guide to be significant considerations for its business planning and operation, and has integrated those environmental and social considerations into its business objectives, strategies and practices.

ESG Scope: The Group’s main business has not been changed in this and last reporting period, which includes: (i) manufacture and sale of modified starch and other biochemical products, and (ii) trading of electronic parts and electrical appliances. The former accounts for over 90% of the turnover and has been the principle activity of the Group.

In the reporting period, same as the previous one, the Group has only one factory in Shandong, the People’s Republic of China (the “PRC”) producing modified starch and other biomedical refined oil products (the “Factory”). This Factory is considered to be of materiality pursuant to the Reporting Guideline for the purpose of ESG reporting. The scope of this ESG Report therefore reviews and reports the environmental and social obligations performance of the Factory and the management headquarter in Hong Kong in the reporting period.

ESG MANAGEMENT AND APPROACH

The Board has continued to be the highest and final place on formulating and approving the Group’s ESG strategies, policies and targets, and has delegated the Chief Executive Officer (“CEO”) to have an overall responsibility to implement them. In daily operation, the CEO has directed and assigned the various department heads with the following duties in relation to ESG issues:

- Implement the approved ESG policies, rules and regulations;
- Collect and compile data and statistics on ESG related issues; and
- Review and monitor especially on the legal compliance of the ESG related issues on a regular basis.

Environmental, Social and Governance Report

During the reporting period, no major anomalies on the ESG management process has been found and reported.

STAKEHOLDERS COMMUNICATION AND MATERIALITY

The Group always values input and feedback of its stakeholders, which may have significant impacts on its business. Internal and external stakeholders have regularly been interacted to give their views and opinions regarding the Group's operation and performance. Through meetings, contacts and various means of communication, the Group and the stakeholders, have identified the following ESG material areas and aspects for 2018:

- Environmental wastes discharges and gases emissions;
- Employment, safety and health;
- Products Quality;
- Ethical business practices; and
- Anti-corruption

The above ESG material areas and aspects have been reviewed, strictly managed and monitored through the Group's established management structure, process, policies and guidelines. The Group has allocated resources and implemented the approved strategies policies and measures to perform and to fulfill its environmental and social obligations and responsibilities especially on the material areas and aspects in the reporting period, which are summarized and reported hereunder:

(A) ENVIRONMENTAL AREAS

ENVIRONMENTAL AREAS OVERVIEW

The Group has continued with its environmental policies and strategies in developing a sustainable business by undertaking initiatives on resources conservation and environmental protection, as well as saving operation costs. The Group has taken an active role to ensure a sustainable and environmentally-friendly production and operating processes by complying with all related national and provincial laws and standards. When carrying out operational activities, the Group has assumed social responsibilities and initiatives to prevent pollution, reduce wastes and minimize negative impact to the environment, and save energy, water and other resources.

During the production processes, hazardous and non-hazardous air, liquid and solid wastes are generated, emitted and discharged from the Factory. On the other hand, the trading business operates entirely in our office and no hazardous air, liquid and solid wastes are generated except indirect greenhouse gas – Carbon Dioxide (CO₂) and general offices wastes, which are emitted and generated through the use of electricity and offices papers and stationaries.

The Group has a clear policy on controlling air emissions and effluent discharge and disposal of hazardous and non-hazardous wastes from the Factory. The emissions and discharges have been subject to constant and regular inspection and surveillance of the Group's environmental division and the various government departments. As a matter of fact, its environmental policy has been subject to periodic review at different management levels to cope with any areas warranting our attention and action.

Environmental, Social and Governance Report

In the reporting period, the Group did not breach any environmental laws, rules and regulations, or receive any warning notice or fines from any governmental agencies in relation to its emissions and discharges.

ENVIRONMENTAL ASPECTS

A1. Emissions and Wastes

(i) Hazardous and Non-hazardous Air Emissions

On the modified starch production line, exhausted air with powder dust will be produced during the drying process in which the powdered dust will be filtered and treated with two stages by a spiral dust remover ensuring removal of 99.5% powder dust and meeting local air quality standard before releasing. While on the biomedical refined oil production line, N-hexane produced during the immersion process will be collected by the paraffin collection system and sent to the deodorizing facility for treatment up to the local standard before releasing.

In the reporting period, all hazardous air emissions from the Factory were collected and treated by our own installed systems before releasing. No adverse comments or irregularities were reported from the internal and external control sources. Its performance on pollution control on air emissions met all the local and national standards, and did not give rise to any concern to the Group, local community and government officials.

In the reporting period, same as 2017, hazardous gases including Nitrogen oxide (NOx), Sulphur Oxide (SOx), and Particulate Matter (PM) were generated directly from the fuel used for our vehicles. The amount generated were 327.63g, 6.45g and 24.12g, which were 158.55g, 3.12g and 11.67g more than 2017 respectively for NOx, SOx and PM. The increase was mainly the result of an increased in the fuel consumption due to our increased trading activities.

In the reporting period, greenhouse gas (GHG) – Carbon Dioxide (CO₂) were directly generated from the use of fuel by our vehicles used in the offices only and indirectly from the use of electricity, amounted to 1.04 tonne and 8,961 tonnes respectively. Comparing with 2017, direct GHG emission was 0.51 tonne more than 2017, as the increased trading activities in our offices led to the use of more fuel and accordingly direct GHG generation. The management has noticed the increase and has introduced measures to reduce the fuel consumptions. For indirect GHG emission generated from used of electricity, the reporting period recorded 12 tonnes less than 2017, which was a direct response to the 7% drop on its turnover. If we deducted the basic fixed requirements, the per unit of product on electricity consumption and indirect GHG emission for the reporting period and 2017 were quite close and stable.

(ii) Noise Pollution Emission

The Group has complied with all the national and local laws, rules and regulations to ensure noises produced from the Factory is under strict control. Furthermore, there are no residents who are living to close the Factory. Hence, in the reporting period, the factory did not receive any complaints related to noise emission, same as 2017. While the noises produced from the operations and activities of the offices are considered to be insignificant.

Environmental, Social and Governance Report

(iii) *Light Emission*

The operations and activities of the Factory and offices do not generate and emit any light pollution. The Factory and the offices have been designed, decorated and installed with the lighting systems strictly in compliance with the local requirements and standards, and no light pollution is caused. In the reporting period, the Group did not receive any complaints related to light emission, same as the 2017.

(iv) *Water Pollution and Discharge*

The Factory's production process generates and discharges polluted liquid wastes which may have serious negative impact on the environment if it is not properly managed and controlled. Since the Factory does not have approved built-in liquid wastes discharge outlets, it has sub-contracted the licensed contractors to collect, treat and dispose all those polluted liquid wastes. The Group also generates used water from daily living and hygiene purposes by its staff and office and factory workers. The used water is discharged into the public sewage system for further treatment.

In the reporting period, the Group did not receive any complaints or warnings on its polluted water discharges, same as the 2017.

(v) *Solid Wastes Discharge and Disposal*

The Factory's modified starch and refined corn oil business generate solid wastes, which are residuals from the Factory. The residuals can be hazardous if they are discharged and disposed without proper treatment. The Group has sub-contracted professional licensed contractors to collect and to dispose these residuals. The Group also generates non-hazardous general wastes such as used paper packaging materials, office wastes, general rubbish, hygiene and living wastes. All these wastes are disposed either to rubbish bins which will be collected by the cities' urban cleaning services on daily basis, or to be collected for further disposal and handling by relevant collectors.

In the reporting period, the Group did not receive any complaints or warnings on its wastes disposal, which was in consistent with its performance in the 2017.

(vi) *Mitigation Measures*

In order to become an environment responsible corporation and for protecting the environment and conserving natural resources, besides full compliance with all the national and local environmental laws, rules and regulations and industrial standards, the Group has implemented following environmental friendly measures into its daily operation and activities to reduce and forbid adverse impacts on our environment.

The Group has appointed responsible officers to regularly inspect the offices and the Factory during working hours to ensure that (i) fresh water is not wasted and used reasonably, and (ii) power is turned off when work is not being carried out or it is not in use; and (iii) investment in fresh water and energy saving tools and equipment such as the installation of water measuring meters, LED lights and solar energy systems to reduce consumption. The Group has also encouraged economic use and recycling of resources to prevent and to reduce wastes. All hazardous wastes produced are collected and disposed of by professional licensed contractors. All hazardous air emissions are treated by our own installed systems before releasing. Non-hazardous wastes are also taken care of by local waste collectors.

Environmental, Social and Governance Report

In the reporting period, the Group complied with all disposal specifications and formalities. No adverse comments or irregularities were reported from the internal and external control sources. The Group's performance on pollution control on air, water, solid wastes has and will continue to comply with all the local and national standards.

A2. Use of Resources

The Factory uses electricity, steam, water and fuel for the production of modified starch and biomedical refined oil products whereas Group's offices only use electricity for daily use, water for general hygiene and cleaning needs, printing papers and packing materials for general use. Besides raw materials used to produce the modified starch and biomedical refined oil products, the Group has not used other natural resources in a significant amount in its business activities and operations.

The Group is committed to act responsibly through complying with all the environmental laws rules and regulations, eliminating all possible impacts on the environment and saving its operational costs. The Group promotes efficient uses of resources including electricity, fuel, fresh water, steam, paper and packaging materials through the introduction of various measures disclosed in above and previous ESG reporting. For the reporting period, same as the 2017, the Group did not have any abnormal or excessive uses of resources especially on electricity, fresh water, steam, paper and packaging materials.

(i) Electricity and Fuel Consumption

The Group uses electricity and fuel for production in the Factory, and only electricity to in office operation. All electricity is supplied from the cities gridlines, and there is no problem on supply. For the reporting period, the offices consumed 34,214 kWh electricity, which was 2,693 kWh or 7.3% less than 2017 despite the 5.7% increase in trading activities over the previous year. Whilst the Factory turnover dropped by 7% over the previous year, the total electricity consumption in the Factory amounted to 8,961,139 kWh, which was only 10,045 kWh or 0.11% less than the 2017. If we excluded the basic fixed electricity requirements, the Factory's electricity consumption per unit of product produced for the reporting period was quite stable and similar to 2017.

In the reporting period, the Group consumed 438 litres fuel by the offices which were 212.25 litres or +93.78% over 2017. The increase was mainly due to our increased trading activities. The Group is aware of the increase and various measures are being put in place to avoid unnecessary fuel consumption.

(ii) Fresh Water and Steam Consumption

The Factory relies totally on city water supply which is the only source for both production and general use. The Factory production is critically dependent upon a reliable incoming source supply and a quality which meets with our production requirements. Not only it is economically imprudent to source alternative water source, it is also insurmountable, if not impossible, by technical production parameters to use water from recycled sources without incurring hefty additional costs and unwarranted extra environmental discharges. In the reporting period, in response to a 7% drop in the turnover of modified starch and biomedical refined oil products, the Factory consumed a total of 147,254 m3 of fresh water, which was 7,877 m3 or 5% less than 2017, which was reasonable.

Environmental, Social and Governance Report

Steam is supplied from the city pipeline. For the reporting period, the Factory consumed 58,662.50 m³ of steam, which was 1,460.40 m³ or 2.4% less than 2017, which was again a response on the 7% drop in the turnover of modified starch and biomedical refined oil products, and was considered as reasonable.

(iii) *Paper and Packaging Materials and other Raw Materials Consumption*

The Group's activities and operations do not consume substantial amounts of paper and packaging materials. To save operational costs and to improve its environmental friendly footprint, the Group has encouraged employees to employ digital storage and communication so as to reduce paper usage. We have also encouraged our employees to practice the 3-R principle (reusing, recycling and reducing) on paper and packaging materials consumption.

Packaging materials are used for the finished products manufactured by the Factory. The packaging materials used are fit for purpose and meet all specifications with non-toxicity and environmental friendliness being the primary concern.

For the reporting period, the Group did not aware any excessive uses of papers and packaging materials.

A3. The Environment and Natural Resources

The Group's operations and activities consume a fair amount of fresh water and steam which are considered to have impacts on the natural resources. The emission and discharge of exhausted air with impurities and waste water from the Factory are considered to have impacts on the environment. On the former, the Group has carried out measures to reduce their consumption successfully. On the latter, the exhausted air has been filtered and the waste water has been collected, treated and disposed by licensed operators without causing any problems to the environment.

The Group is aware of its environmental obligations and has not violated any of the national and local environmental laws, rules and regulations. The 3-R principle (reduce, reuse and recycle) is the main approach which the Group has implemented. Also, the Factory has constantly look for alternative means to conserve natural resources, to reduce pollution and to sustain environmental development. The Group is willing and has continued to invest in environmental equipment and facilities and production technology to improve its environmental performance and to achieve its environmental goals. For the reporting period, the Group spent over HK\$14 million on environmental related equipment, tools and activities.

(B) SOCIAL AREAS AND ASPECTS

SOCIAL AREAS OVERVIEW

As stated in the corporate objective statement, the Group is committed to bringing returns to its investors and supporters, providing a healthy and safe working environment to its employees, and creating a sustainable development for the local communities. It has therefore formulated and implemented its ESG strategies, policies, rules and regulations by incorporating its long and short term goals with considerations on the stakeholders and the society. It has committed to operating its business in an open, transparent and fair way, through which will bring benefits to stakeholders and contribute the growth and development of the local communities and society.

Environmental, Social and Governance Report

SOCIAL ASPECTS

The ESG Guide states that Social aspects include “Employment and labour Practices” and “Operation practices”, which are reported herein below:

Employment and Labour Practices Aspects

B1. Employment

The Group has continued the following employment policies and practices throughout the reporting period:

- Complies with all the national and local employment laws, rules and regulations;
- Provides a safe and pleasant working environment to its employees;
- Implements a fair and responsible human resources policies with equal opportunities for all without discrimination on recruitment, promotion, remuneration, benefits, training, dismissals etc.;
- Enters into proper written employment contracts with employees;
- Provides and maintains statutory benefits to all qualified staff, including but not limited to mandatory provident fund, central social security insurance, medical insurance, work injury insurance and compensation in accordance with the requirements of the laws of Hong Kong and the PRC;
- Offers remuneration packages with reference to the prevailing market level in line with competency, qualifications and experience; and
- Opens up opportunities for employees to move on vertical and horizontal career path etc.

The Group has complied with all the employment laws, rules and regulations of the PRC and Hong Kong, and has honored all obligations without disputes with its employees in the reporting period.

(i) Employment Locations

At the end of the reporting period, the Group employed a total of 160 employees including 12 in the headquarter and offices and 148 in the Factory. The number of employees was 34 (2 decreased in the headquarter and offices and 36 increased in the Factory) more than 2017.

Environmental, Social and Governance Report

(ii) Employee Compensation Package

The Group has continued to comply with the relevant laws and regulations of the “Labor Law of the PRC” 《中華人民共和國勞動法》 and “Employment Ordinances of the Hong Kong and has totally forbidden the recruitment of child labour and forced labour. All employees are required to sign contracts containing detailed terms and conditions including but not limited to amount of salaries and wages, benefits, medical and accidental insurance, unemployment funds, working hours, employee rights to join trade unions and to have holidays and so on, and such contracts are filed with the local Human Resource Bureau.

The Group has paid competitive market salaries and wages to its employees, and for special talented, skilled and qualified employees, it has remunerated them either by offering higher than market salaries and wages or additional benefits.

In accordance with the requirements of the laws of the PRC and Hong Kong, where appropriate, the Group has provided and maintained statutory benefits to all qualified employees, including but not limited to mandatory provident fund, social security insurance, medical insurance, work injury insurance and compensation and statutory holidays.

For the reporting period, the Group did not have any legal disputes with its employees in relation to salaries and wages and other benefits and compensations payment on record, which was consistent with its performance in 2017.

B2. Health and Safety

The Group has continued to safeguard health and safety, and to provide a safe, clean and pleasant working environment to its employees. The main considerations on policies planning, budget allocation and measures implementation for 2018 are summarized in the below:

- the Group constantly improves the occupational safety and health management system in order to reduce risks and create a safe working environment;
- The Group ensures all the safety, medical and hygiene equipment are adequately in place and are operating efficiently, passing inspections and complying with all the safety and hygiene rules and regulations;
- The Group requires all employees to strictly comply with the health and safety policies, rules and regulations, and has constantly alerted the employees to perform their tasks under safety conditions;
- The Group has taken out National Social Securities and Insurance for all qualified employees of the Factory and employee compensation for employees in Hong Kong in accordance with the statutory requirements of the respective places; and

Environmental, Social and Governance Report

- In case of accidents, regardless of being minor or serious, employees are required by the in-house rules to notify their superiors immediately, who will take appropriate measures to ensure safety is not being compromised.

The Employees' Handbook and Labour Contract for Chinese employees and Employment Contract for Hong Kong employees set out detailed health and safety guidance and measures, which comply with the employment ordinance of Hong Kong and labour laws and regulations of the PRC, which the Group has honored completely.

In the reporting period, same 2017, the Group did not have any work related serious fatalities or injuries reported.

B3. Development and Training

The Group continues with its policy to provide the required level of training in terms of skills and job knowledge, plant operations and production know-hows to employees at various levels so that they can carry out job duties in a competent and capable manner. As many employees come from the rural areas with limited skills, the Group has instructed the human resources department to design special training programs for the new employees which should include occupational health and safety, products knowledge and skills, products and services quality, etc. The Group has also supported its employees to continue learning their job skills. Individual employees can apply for further development and training and the Group will sponsor or allow paid leave for the employees to attend the job related training programs. In the reporting year, the Group provided HK\$19,000 training fees (2017: HK\$3,000).

B4. Labour Standards

The Group continues to adopt and to ensure stringent compliance of the national standard of China and the local standard of Hong Kong as its minimum labour standard on labour protection and welfare. The Group has honored all of its obligations towards the employees under the signed employment contracts and the terms and conditions written in the Employee Handbook, and have built a safe, healthy and harmonious working environment in all its offices and the Factory. The Group has not been prosecuted for any breach of labour safety and employment laws for the reporting period.

Banning the employment of child labour and forced labour is achieved through the recruitment and employment process at source. The HR department has been fully charged with this statutory duty and is being oversighted by the senior levels with constant reviews at periodic intervals.

All job applicants are required to submit their credentials like academic qualifications, professional skill certificates, references and identity card for verification and record purpose during recruitment. This aims at barring illegal employment.

The Group has honored all of its obligations towards staff and no labour disputes or litigations were reported for the reporting period, same as 2017.

Environmental, Social and Governance Report

Operation Practices and Social Investment Aspects

B5. Supply Chain Management

The ESG Guide states that “supply chain management covers the management of sourcing and procurement”. The Group continues its policy to open its purchases to all suppliers on a fair and equitable manner to achieve an efficient and stable supply of quality goods and services and elimination of malpractices. All purchases are executed and recorded in accordance with the in-house rules which predominantly imposes concern for and attaches importance to its fit for purpose, safety and reliability. Other secondary considerations are in areas like price, sustainable availability and reputation of the suppliers. Suppliers are chosen basing on their continuous ability to guarantee satisfactory product quantity and quality, reasonable pricing and timely delivery. New suppliers are required to provide relevant certifications/documents and track records.

The Group understands that quality and technical standard of the raw materials are crucial and instrumental to the Factory output quality. The Group attaches great importance to the quality and standards of the incoming raw materials. A stringent specification stipulation policy on procurement has been established and in force where applicable in the procurement process. Incoming key materials will be subjected to our own quality assurance checks. As far as condition warrants and permits, the Group may impose a condition in the procurement documents to reserve the right to inspect and examine the raw materials before purchase.

In the reporting period, the Group purchased raw materials crucial to its Factory production mainly from both local and overseas suppliers. The Group has maintained stable sources of supplies and does not foresee its sources of supplies to be a potential threat to our Factory operation. While on purchases for general purpose are generally concluded with suppliers in the nearby areas to support the local economy.

B6. Product Responsibilities (Quality and Safety/Intellectual Property/Privacy)

(i) Quality and Safety

The Group fully understands the importance of product quality and safety on its sales and ability to retain its customers and to expand its market shares.

To guarantee safety and quality of our products, the Group has obtained ISO9001-2008 on quality management certification and CNCA/CTS 0010-2008A (CCAA 0005-2014) on food safety management system certification. The Group has also obtained CNCA/CTS 0020-2008A (CCAA 0014-2014) certification for starch and starch products production.

The Group has labelled its products in a manner consistent with trade practice and customer needs or as prescribed by law. All stipulations for product labelling required by local or overseas laws have been strictly adhered to. No breaches or infringements were reported in the year ended 31 December 2018, same as 2017.

Environmental, Social and Governance Report

The Group has taken all reasonable measures and steps to ensure that the products sold and delivered are safe, accurate, satisfactory and meet all agreed or legally requirements and industries' standards, and pursuant to the terms and conditions of the sales and purchase contracted.

In the reporting period, same as 2017, the Factory did not have any sales returns or rejects due to product quality reason, or any complaints on its products quality from the clients, consumer council or related government agencies.

(ii) Customer Services and Complaints

Policies and procedures have been in place to ensure that all customer concerns and complaints are addressed at the appropriate levels and in a timely manner. The Sales account executives are the immediate front line employees to monitor and to review the performance of the delivered quality of products, and to receive complaints, concerns or dissatisfactions. Whenever there is a product quality issue takes place, the related sales executive should immediately understand and find out the situations and reasons for the case, report to the senior management and to address the problems without delays.

(iii) Intellectual Property

The Group does not foresee any intellectual property right issues on its products. The technology for production of modified starch and biomedical refined oil products has been matured and commonly known. The Group sells the modified starch and biomedical refined oil products under its own brands. No irregularities on intellectual property right issue have been detected or recorded during the reporting period.

(iv) Privacy

The Group's operations and activities have generated and accumulated a certain amount of private, confident and sensitive information especially on the buyers and suppliers during the sales and purchases processes. The Group is aware of its obligations and has kept the information under secured conditions. Employees have been notified and legally bounded in the employment contracts that they are obligated to honour the "Confidentiality Undertaking" that no disclosure and/or leakage in whatever forms of the confidential information shall be accessed and/or obtained without approval. Legal actions will be taken if violation takes place. For the reporting period, same as 2017, there was no complaint or legal charge on leakage of privacy information.

Environmental, Social and Governance Report

B7. Anti-corruption

As disclosed in the introduction section, anti-corruption is a material aspect to all stakeholders. The Group has the social responsibility, as well as the duty to safeguard the assets and interests of all our stakeholders. The Group has therefore implemented a “NO” tolerance approach to bribery, extortion fraud, and money laundering crimes.

The Group has incorporated anti-corruption, anti-bribery and malpractices clauses into the employee Handbook and Employment Contract, which strictly prohibit to offer, give, demand or accept any undue advantages (including but not limited to money, favours, gifts, discounts, services, loans etc.) to or from any person in order to obtain or retain business. Employees at all levels are constantly reminded on fulfilling their ethical obligation on corruption and giving and taking of interests and benefits. Staff are required to declare any conflict of interest in the execution of their roles. Through the establishment of these rules and regulations, the Group encourages all employees to discharge their duties with integrity and comply with the relevant laws and regulations.

Transactions in large monetary sums are processed through bank transactions which require authorized signatories of the appropriate levels depending on the amount involved.

Checks and balances have been installed in the Group for money transaction activities and are considered effective and adequate. No adverse comment on this aspect has been received from the external auditor. Money laundry should not be our concern and there were no enquiries or concerns from the government or banking officials.

In the reporting period, same as 2017, the Group did not record any no bribery case nor corruption charge.

B8. Community Investment

The Factory continued to provide over 120 jobs especially to low skilled city and country-side workers in 2018, and to support its employees to participate in voluntary services to the local villages and community on paid leaves.

Independent Auditor's Report

恒健會計師行有限公司

HLM CPA LIMITED

Certified Public Accountants

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TO THE MEMBERS OF WAI CHUN MINING INDUSTRY GROUP COMPANY LIMITED

偉俊礦業集團有限公司

(Incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of Wai Chun Mining Industry Group Company Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 40 to 113, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSA") 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.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

The accompanying consolidated financial statements for the year ended 31 December 2018 have been prepared assuming that the Group will continue as a going concern. We draw attention to Note 2 to the consolidated financial statements which indicates that the Group incurred a net loss attributable to owners of the Company of approximately HK\$53,617,000 for the year ended 31 December 2018 and as at that date, the Group had net current liabilities and net liabilities of approximately HK\$84,060,000 and HK\$45,283,000 respectively, and also, the Group's capital deficiency attributable to owners of the Company was approximately HK\$47,045,000. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern. Management's arrangements to address the going concern issue are also described in Note 2 to the consolidated financial statements. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty. Our opinion is not modified in respect of this matter.

Independent Auditor's Report

KEY AUDIT MATTERS

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

Key audit matters

How our audit addressed the key audit matter

Impairment assessments of trade and bills receivables

As set out in note 22 to the consolidated financial statements, as at 31 December 2018, the Group had trade and bills receivables amounting to HK\$22,140,000, net of provision of HK\$5,692,000.

The Group applies HKFRS 9 simplified approach to measure expected credit loss ("ECL"). Trade receivables have been assessed for impairment both on an individual basis and on a collective group basis based on different credit risk characteristics.

Management is required to carry out an estimation at the reporting date of ECL, which is judgemental and may be subjected to management bias.

Our audit procedures in relation to the management's impairment assessment of trade and bills receivables included:

- Evaluating the design and implementation of controls applied by the management to assess the measurement of ECL of trade and bills receivables.
- Testing the accuracy of the receivable ageing analysis.
- Requesting confirmations for year end balances on a sample basis. Where confirmations had not been received, we sought explanation from management and checking to their sales invoices, delivery documents and their subsequent settlement and corroborative enquiry.
- Assessing the reasonableness of provision for impairment of trade receivables made by management with reference to the credit history of the trade receivables including default or delay in payments, settlement records, subsequent settlements and ageing analysis of trade receivables.

We found the judgements and assumption made by management in assessing the provision for impairment of trade receivables to be reasonable based on evidence obtained.

Independent Auditor's Report

KEY AUDIT MATTERS (Continued)

Key audit matters

How our audit addressed the key audit matter

Equity-settled share-based payment

As set out in note 37 to the consolidated financial statements, share-based payment expenses recorded for the year ended 31 December 2018 amounted to HK\$39,864,000. Significant judgement is required for its determining valuation.

Our procedures in relation to management's valuation of share-based option expenses included:

- Evaluation of the independent external valuers' competence, capabilities and objectivity.
- Assessing the appropriateness of the parameters used in the valuation.
- Assessing the valuation methodology.

We found the valuation made by management in assessing the share-based payment expenses to be reasonable based on the evidence obtained. The significant inputs have been appropriately disclosed in note 37.

OTHER INFORMATION

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

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

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

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

The Directors of the Company are responsible for the preparation of 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.

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

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 solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

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

As part of an audit in accordance with HKSA's, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the Directors.
- conclude on the appropriateness of the Directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

Independent Auditor's Report

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS *(Continued)*

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

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

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

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

HLM CPA Limited

YIP YUEN NGA

Practising Certificate Number: P05908

Certified Public Accountants

Hong Kong

29 March 2019

Consolidated Statement of Profit or Loss

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Turnover	8	480,852	512,133
Cost of sales		<u>(465,330)</u>	<u>(499,203)</u>
Gross profit		15,522	12,930
Other revenue	9	7,032	1,605
Selling expenses		(7,456)	(7,013)
Administrative expenses		(22,716)	(19,009)
Equity-settled share-based payment		(39,864)	–
Impairment losses, net of reversal	12	537	(4,237)
Finance costs	11	(6,060)	(4,907)
Loss before tax		(53,005)	(20,631)
Income tax expense	13	(149)	(111)
Loss for the year	14	<u>(53,154)</u>	<u>(20,742)</u>
Profit (loss) for the year attributable to:			
– Owners of the Company		(53,617)	(17,399)
– Non-controlling interests		463	(3,343)
		<u>(53,154)</u>	<u>(20,742)</u>
Loss per share	18	HK cents	HK cents
–Basic		<u>(0.32)</u>	<u>(0.11)</u>
–Diluted		<u>(0.32)</u>	<u>(0.11)</u>

Consolidated Statement of Profit or Loss and Other Comprehensive Income

For the year ended 31 December 2018

	2018 HK\$'000	2017 HK\$'000
Loss for the year	(53,154)	(20,742)
Other comprehensive income		
<i>Item that may be reclassified subsequently to profit or loss:</i>		
Exchange differences arising from translation of foreign operations	<u>26</u>	<u>556</u>
Other comprehensive income, net of income tax	<u>26</u>	<u>556</u>
Total comprehensive expense for the year	<u>(53,128)</u>	<u>(20,186)</u>
Total comprehensive income (expenses) attributable to:		
– Owners of the Company	<u>(53,603)</u>	<u>(17,116)</u>
– Non-controlling interests	<u>475</u>	<u>(3,070)</u>
	<u>(53,128)</u>	<u>(20,186)</u>

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current assets			
Property, plant and equipment	19	42,728	42,695
Prepaid land lease payments	20	29,635	32,004
		<u>72,363</u>	<u>74,699</u>
Current assets			
Inventories	21	28,490	25,969
Prepaid land lease payments	20	696	735
Trade and bills receivables	22	22,140	22,518
Deposits, prepayments and other receivables	23	18,509	14,096
Financial assets at fair value through profit or loss		–	3,567
Bank balances and cash	24	4,537	5,822
		<u>74,372</u>	<u>72,707</u>
Current liabilities			
Trade payables	25	62,570	61,633
Accruals and other payables	26	27,010	22,846
Contract liabilities	27	6,241	–
Tax payables		46	61
Amounts due to a non-controlling shareholder of a subsidiary	28	–	9,903
Borrowings	29	62,565	59,928
		<u>158,432</u>	<u>154,371</u>
Net current liabilities		<u>(84,060)</u>	<u>(81,664)</u>
Total assets less current liabilities		<u>(11,697)</u>	<u>(6,965)</u>
Non-current liability			
Loans from the ultimate holding company	30	33,586	25,054
Net liabilities		<u>(45,283)</u>	<u>(32,019)</u>

Consolidated Statement of Financial Position

At 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Capital and reserves			
Share capital – ordinary shares	31	41,477	41,477
Share capital – convertible preference shares	32	542	542
Reserves		(89,064)	(75,325)
Capital deficiency attributable to owners of the Company		(47,045)	(33,306)
Non-controlling interests		1,762	1,287
Capital deficiency		(45,283)	(32,019)

The consolidated financial statements on pages 40 to 113 were approved and authorised for issue by the Board of Directors on 29 March 2019 and are signed on its behalf by:

Mr. Lam Ching Kui
Director

Mr. Chan Chun Wai, Tony
Director

Consolidated Statement of Changes in Equity

For the year ended 31 December 2018

	Attributable to shareholder of the Company									
	Share Capital	Convertible preference shares	Share premium	Other reserve	Share option reserve	Translation reserve	Accumulated losses	Sub-total	Non-controlling interests	Total equity
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	40,677	1,342	209,982	6,906	23,228	775	(299,100)	(16,190)	4,357	(11,833)
Loss for the year	-	-	-	-	-	-	(17,399)	(17,399)	(3,343)	(20,742)
Other comprehensive income for the year:										
Exchange differences arising from translation of foreign operations	-	-	-	-	-	283	-	283	273	556
Total comprehensive income (expense) for the year	-	-	-	-	-	283	(17,399)	(17,116)	(3,070)	(20,186)
Conversion of convertible preference shares	800	(800)	-	-	-	-	-	-	-	-
At 31 December 2017 and 1 January 2018	41,477	542	209,982	6,906	23,228	1,058	(316,499)	(33,306)	1,287	(32,019)
(Loss) profit for the year	-	-	-	-	-	-	(53,617)	(53,617)	463	(53,154)
Other comprehensive income for the year:										
Exchange differences arising from translation of foreign operations	-	-	-	-	-	14	-	14	12	26
Total comprehensive income (expense) for the year	-	-	-	-	-	14	(53,617)	(53,603)	475	(53,128)
Recognition of equity-settled share-based payment	-	-	-	-	39,864	-	-	39,864	-	39,864
At 31 December 2018	41,477	542	209,982	6,906	63,092	1,072	(370,116)	(47,045)	1,762	(45,283)

Note:

Other reserve represents the share of a subsidiary's share premium arising from the allotment and issue of shares, and deemed contribution from owners of the Company.

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Notes	2018 HK\$'000	2017 HK\$'000
Operating activities			
Loss before tax:		(53,005)	(20,631)
Adjustments for:			
Finance costs	11	6,060	4,907
Interest income	9	(170)	(129)
Depreciation on property, plant and equipment	19	3,619	3,841
Amortisation of prepaid land lease payments	20	725	705
Loss on disposal of property, plant and equipment		238	–
Impairment losses, net of reversal	12	(537)	4,237
Reversal of write-down of inventories	21	(4,484)	(149)
Waived interest payable on convertible note	9	(1,447)	–
Equity-settled share-based payment	37	39,864	–
		<u>(9,137)</u>	<u>(7,219)</u>
Operating cash flows before movements in working capital			
Decrease in inventories		635	14,831
(Increase) decrease in trade and bills receivables		(403)	2,037
Increase in deposits, prepayments and other receivables		(5,083)	(5,313)
Increase in trade payables		4,328	74
Increase in accruals and other payables		2,907	4,623
		<u>(6,753)</u>	<u>9,033</u>
Cash (used in) generated from operations			
Tax paid		(136)	(105)
		<u>(6,889)</u>	<u>8,928</u>
Investing activities			
Interest received	9	170	129
Proceeds from disposal of property, plant and equipment		372	–
Proceeds from disposal of financial assets			
at fair value through profit or loss		3,521	1,418
Purchase of property, plant and equipment	19	(6,563)	(8,274)
Purchase of financial assets at fair value			
through profit or loss		–	(3,425)
		<u>(2,500)</u>	<u>(10,152)</u>
Net cash used in investing activities			

Consolidated Statement of Cash Flows

For the year ended 31 December 2018

	Note	2018 HK\$'000	2017 HK\$'000
Financing activities			
Interest paid		(4,016)	(3,496)
Repayment of borrowings		(56,589)	(55,011)
New borrowings raised		62,456	55,069
Increase in loans from the ultimate holding company		6,648	8,754
Decrease in amounts due to a non-controlling shareholder of a subsidiary		—	(5,524)
Net cash generated from (used in) financing activities		8,499	(208)
Net decrease in cash and cash equivalents		(890)	(1,432)
Cash and cash equivalents at beginning of year		5,822	6,464
Effect of foreign exchange rate changes		(395)	790
Cash and cash equivalents at end of year		4,537	5,822
Analysis of cash and cash equivalent:			
Bank balances and cash	24	4,537	5,822

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

1. GENERAL

The Company is incorporated in the Cayman Islands as an exempted company with limited liability and its shares are listed on The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). In the opinion of the Directors of the Company, the ultimate holding company of the Company is Oriental Success Ventures Limited (“Oriental Success”), which is a private limited company incorporated in the British Virgin Islands. Its ultimate controlling party is Mr. Lam Ching Kui (“Ultimate Controlling Party”), who is the chairman of the Board of Directors and an executive director of the Company. The address of the registered office of the Company is P.O. Box 31119, Grand Pavilion, Hibiscus Bay, 802 West Bay Road, Grand Cayman KY1-1205, Cayman Islands and the principal place of business of the Company is 13/F, Admiralty Centre 2, 18 Harcourt Road, Admiralty, Hong Kong.

The principal activities of the Group are the manufacture and sale of modified starch and other biochemical products and general trading including the trading of electronic parts and components and electrical appliances.

The consolidated financial statements are presented in Hong Kong dollars (“HK\$”), which is also the functional currency of the Company. In addition, the functional currencies of certain group entities that operate outside Hong Kong are determined based on the currency of the primary economic environment in which the group entities operate.

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2018, the Group incurred a net loss attributable to owners of the Company of approximately HK\$53,617,000 and as at that date, the Group had net current liabilities and net liabilities of approximately HK\$84,060,000 and HK\$45,283,000 respectively, and also, the Group’s capital deficiency attributable to owners of the Company was approximately HK\$47,045,000. These conditions indicate the existence of material uncertainty which may cast significant doubt on the Group’s ability to continue as a going concern and therefore, the Group may not be able to realise its assets and discharge its liabilities in the normal course of business.

In order to ensure the Group’s ability to operate as a going concern, the Directors of the Company have implemented measures as follow:

- (i) As at 31 December 2018, the Company has drawn down loan of approximately HK\$33,586,000 and undrawn loan facilities of approximately HK\$97,414,000 granted by Oriental Success, its ultimate holding company, which is provided on a sub-ordinated basis, i.e. Oriental Success will not demand the Company for repayment of such loans until all the other liabilities of the Group had been satisfied;

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

2. BASIS OF PREPARATION OF CONSOLIDATED FINANCIAL STATEMENTS

(Continued)

- (ii) In addition to the loan facilities granted by Oriental Success as stated above, the Ultimate Controlling Party has also undertaken to provide adequate funds to enable the Group to meet its liabilities and to settle financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving these consolidated financial statements;
- (iii) The Company has planned and is in negotiation with potential investors to raise sufficient funds through fund-raising arrangement; and
- (iv) The Directors will continue to implement measures aiming at improving the working capital and cash flows of the Group including closely monitoring general administrative expenses and operating costs.

The Directors have carried out a detailed review of the cash flow forecast of the Group for the coverage period to 31 March 2020, taking into account the impact of above measures, the Directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as and when they fall due in the next twelve months from the date of this report, and accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

As set out in the paragraphs above, the Group intends to pursue strategic acquisitions that can enable the Company to capture new business opportunities in the People's Republic of China (the "PRC") market and to strengthen the revenue and profit fundamentals. The Company has been actively identifying projects with growth potential for acquisitions or investments and has engaged in discussions with various parties for such acquisitions or investments.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

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

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

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

3.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirement for 1) the classification and measurement of financial assets and financial liabilities, 2) expected credit losses (“ECL”) for financial assets and 3) general hedge accounting.

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year
(Continued)

3.1 Impact and changes in accounting policies of application on HKFRS 9 Financial Instruments (Continued)

3.1.1 Effect arising from initial application of HKFRS 9

As at 1 January 2018, the directors of the Company reviewed and assessed the Group’s existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. The results of the assessment and the impact thereof are detailed below.

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables and measures the lifetime ECL on each debtor individually based on the present value of the difference between the contractual cash flows that are due to the Group and the cash flows that the Group expects to receive, with the consideration of forward looking information.

Based on the assessment by the management of the Company, the ECL on financial assets at amortised cost and mandatorily at FVTPL is insignificant and therefore it did not result in an adjustment of opening accumulated losses.

The application of the new and amendments to HKFRSs in the current year has had no material impact on the Group’s financial performance and positions for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

The table below explains the original measurement categories under HKAS 39 and the new measurement categories under HKFRS 9 for each class of the Group’s financial assets as at 1 January 2018.

	Original classification under HKAS 39	New classification under HKFRS 9	Original carrying amount under HKAS 39 HK\$’000	New carrying amount under HKFRS 9 HK\$’000
Financial assets				
Financial assets at fair value through profit or loss	Designated as at FVTPL	Mandatorily at FVTPL	3,567	3,567
Trade and bills receivables	Loan and receivables	Amortised cost	22,518	22,518
Deposits and other receivables	Loan and receivables	Amortised cost	8,377	8,377
Bank balances and cash	Loan and receivables	Amortised cost	5,822	5,822
Total financial assets			40,284	40,284

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) *(Continued)*

New and Amendments to HKFRSs that are mandatorily effective for the current year
(Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this Standard recognised at the date of initial application, 1 January 2018. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the Standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 Revenue and HKAS 11 Construction Contracts and the related interpretations.

The Group recognises revenue from the following major sources which arise from contracts with customers:

- Manufacture and sale of modified starch and other biochemical products
- General trading of electronic parts, components and electrical appliances

The revenue from sale of modified starch and other biochemical products and general trading are recognised at a point in time, interest income is accrued on a time basis. The application of HKFRS 15 does not have significant impact on the amounts reported in the consolidated financial statements for the year 2017 and 2018.

3.2.1 Effect arising from initial application of HKFRS 15

“Receipts in advance from customers” in relation to deposits or payments received in advance for manufacture and sale of modified starch and other biochemical products, which was previously included in “Other payables and accruals” has been reclassified as “Contract liabilities”.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and Amendments to HKFRSs that are mandatorily effective for the current year
(Continued)

3.2 Impacts and changes in accounting policies of application on HKFRS 15 Revenue from Contracts with Customers (Continued)

3.2.1 Effect arising from initial application of HKFRS 15 (Continued)

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

	Carrying amounts previously reported at 31 December 2017 HK\$'000	Reclassification HK\$'000	Carrying amounts under HKFRS 15 at 1 January 2018 HK\$'000
Current liabilities			
Accruals and other payables	22,846	(8,159)	14,687
Contract liabilities	–	8,159	8,159

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

	As reported HK\$'000	Adjustments HK\$'000	Amounts without application of HKFRS 15 HK\$'000
Current liabilities			
Accruals and other payables	27,010	6,241	33,251
Contract liabilities	6,241	(6,241)	–

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

3. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)

New and amendments to HKFRSs issued but not yet effective

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

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

¹ Effective for annual periods beginning on or after 1 January 2019.

² Effective for annual periods beginning on or after 1 January 2020.

³ Effective for annual periods beginning on or after 1 January 2021.

⁴ Effective date to be determined.

⁵ Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020.

The Directors of the Company do not anticipate that the application of these new and amendments to HKFRSs will have any material impact on the Group’s consolidated financial statements in the foreseeable future.

4. SIGNIFICANT ACCOUNTING POLICIES

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

The principal accounting policies are set out below.

Basis of consolidation

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Basis of consolidation *(Continued)*

When the Company has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Company considers all relevant facts and circumstances in assessing whether or not the Company's voting rights in an investee are sufficient to give it power, including:

- the size of the Company's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Company, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Company has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

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

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

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

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

Non-controlling interests in the net assets or liabilities consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Changes in the Group's ownership interests in existing subsidiaries

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

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

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

Investment in subsidiaries

Investment in subsidiaries are stated at cost less any identified impairment loss.

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3)

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

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 3) (Continued)

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

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

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable, net of discount and sales related taxes.

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

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

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Leases

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

The Group as lessee

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from leased asset are consumed.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Prepaid land lease payments

Prepaid land lease payments represent upfront premium paid for use of land. These payments are stated at cost and are amortised over the period of the lease on a straight-line basis as an expense.

Property, plant and equipment

Property, plant and equipment including buildings, construction in progress, leasehold improvements, furniture and fixtures, machinery and equipment and motor vehicles held for use in the production or supply of goods or services, or for administrative purposes (other than properties under construction as described below), are stated in the consolidated statement of financial position at cost, less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Properties in the course of construction for production, supply or administrative purposes are carried at cost, less any recognised impairment loss. Cost includes professional fees and, for qualifying assets, borrowing costs capitalised in accordance with the Group's accounting policy. Such properties are classified to the appropriate categories of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

Depreciation is recognised so as to write off the cost of assets (other than properties under construction) less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis.

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

Foreign currencies

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

Exchange differences arising on settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during that period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange difference arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of translation reserve (attributed to non-controlling interests as appropriate).

Borrowing costs

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

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

Pension schemes and other retirement benefits

The Group operates a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance, for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Taxation

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

Current tax

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

Deferred tax

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises 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. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary difference associated with investments in subsidiaries and associates, and interests in 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. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Taxation (Continued)

Current and deferred tax for the year

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

Provisions

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

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

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Impairment on tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives 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 relevant asset is estimated in order to determine the extent of the impairment loss (if any). Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Impairment on tangible and intangible assets other than goodwill *(Continued)*

Recoverable amount is the higher of fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories, including an appropriate portion of fixed and variable overhead expenses, are determined on a weighted average basis. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

Cash and cash equivalents

Cash and cash equivalents comprise cash on hand and deposits held at call with banks, and other short-term highly liquid investment with original maturities of three months or less that are readily convertible to a known amount of cash and are subject to an insignificant risk of changes in value.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Related parties

A related party is a person or 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 Group or the Group's parent.

- (b) An entity is related to the Group if any of the following conditions applies:
 - (i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);
 - (ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);
 - (iii) both entities are joint ventures of the same third party;
 - (iv) one entity is a joint venture of a third entity and other entity is an associate of the third party;
 - (v) the entity is a post-employment benefit plan for the benefits 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;
 - (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); or
 - (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments

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

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

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

Interest which are derived from the Group’s ordinary course of business are presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3)

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

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 3) (Continued)

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

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

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

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3)

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade and other receivables). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

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

The Group always recognise lifetime ECL for trade receivables without significant component. Except for those debtors with credit impaired are assessed individually, the ECL on trade receivables are assessed collectively using a provision matrix with appropriate groupings.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (Continued)

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

(i) Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

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

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (Continued)

(i) Significant increase in credit risk (Continued)

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

(ii) Definition of default

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

Irrespective of the above, the Group considers that default has occurred when a financial asset is more than 365 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

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

- (a) significant financial difficulty of the issuer or the borrower;
- (b) a breach of contract, such as a default or past due event;
- (c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;
- (d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or
- (e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 3) (Continued)

(v) Measurement and recognition of ECL

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

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

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the basis:

- Nature of financial instruments;
- Past-due status; and
- Nature, size and industry of debtors.

(v) Measurement and recognition of ECL (Continued)

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is either held-for-trading or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

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

A financial asset other than a financial asset held-for-trading may be designated as at FVTPL upon initial recognition if:

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

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss includes any dividend or interest earned on the financial assets and is included in the "other revenue" line item in the consolidated statement of profit or loss. Fair value is determined in the manner described in note 7(c).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

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

Loans and receivables

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

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

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the financial assets have been affected.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial asset, such as trade and bills receivables, deposits and other receivables, assets are assessed for impairment on a collective basis even if they were assessed not to be impaired individually. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period, observable changes in national or local economic conditions that correlate with default on receivables.

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial instruments (Continued)

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods (see the accounting policy below).

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

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

Derecognition of financial assets

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

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Derecognition of financial assets (Continued)

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise under continuing involvement, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

Financial liabilities and equity instruments

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

Equity instruments

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

Convertible preference shares

Convertible preference shares are classified as equity if it is non-redeemable and any dividends are discretionary. Dividends on convertible preference shares classified as equity are recognised as distributions within the equity.

Other financial liabilities

Other financial liabilities (including trade payables, other payables, borrowings and loans from the ultimate holding company) are subsequently measured at amortised cost, using the effective interest method.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

4. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

Financial instruments (Continued)

Derecognition of financial liabilities

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

Share-based payment arrangements

Equity-settled share-based payment transactions

Share options granted to employees

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

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained profits.

Share options granted to consultants

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

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 4, management is required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

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

Critical judgements in applying accounting policies

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

Going concern consideration

The assessment of the going concern assumptions involves making judgements by the management, at a particular point of time, about the future outcome of events or conditions which are inherently uncertain. The directors of the Company consider that the Group has ability to continue as a going concern and the major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt about the going concern assumptions are set out in note 2 to the consolidation financial statements.

Key sources of estimation uncertainty

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

Depreciation of property, plant and equipment

The Group's carrying amounts of property, plant and equipment as at 31 December 2018 were approximately HK\$42,728,000 (2017: approximately HK\$42,695,000). The Group depreciates the property, plant and equipment on a straight-line basis over the estimated useful life of 3 years to 20 years and after taking into account of their estimated residual values, using the straight-line method, at the rate of 5% to 33% per annum, commencing from the date in which the property, plant and equipment are available for use. The estimated useful life that the Group places the property, plant and equipment into productive use reflects the Directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

5. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty (Continued)

Impairment loss on trade and other receivables

The Group uses provision matrix to calculate ECL for the trade receivables based on the grouping of various debtors that have similar loss patterns. The provision matrix is based on the Group's historical default rates and taking into consideration forward-looking information that is reasonable and supportable that is available without undue costs or effort. At every reporting date, the historical observed default rates are reassessed and changes in the forward-looking information are considered. In addition, trade receivables with credit impaired are assessed for ECL individually.

As at 31 December 2018, the carrying amounts of trade and bills receivables and deposits, prepayments and other receivables are approximately HK\$22,140,000 (2017: approximately HK\$22,518,000) and approximately HK\$18,509,000 (2017: approximately HK\$14,096,000) respectively, net of accumulated impairment loss of trade and bills receivables and deposits, prepayments and other receivables of approximately HK\$5,692,000 (2017: approximately HK\$13,029,000) and approximately HK\$7,731,000 (2017: approximately HK\$7,956,000) respectively.

Impairment loss on inventories

The management of the Group reviews an ageing analysis of the inventories at the end of reporting period, and identified obsolete and slow-moving inventory items that are no longer suitable for use in production. The management estimates the net realisable value for such finished goods based primarily on the latest invoice prices and current market conditions. The Group carries out an impairment review on a product-by-product basis at the end of reporting period and provides impairment loss on obsolete items.

As at 31 December 2018, the carrying amounts of inventories are approximately HK\$28,490,000 (2017: approximately HK\$25,969,000).

Deferred tax asset

At 31 December 2018, no deferred tax asset has been recognised on the tax losses of approximately HK\$159,370,000 (2017: approximately HK\$164,224,000) due to the unpredictability of future profit streams. The realisability of the deferred tax asset mainly depends on whether sufficient future assessable profits or taxable temporary differences will be available in the future. In cases where the estimated future assessable profits or taxable temporary differences are more than those previously estimated, a material recognition of deferred tax assets may arise, which would be recognised in profit or loss for the period in which the revised estimate takes place.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

6. CAPITAL RISK MANAGEMENT

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to owners through the optimisation of the debts and equity balance. The Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of net debts (which includes amount due to a non-controlling shareholder of a subsidiary, borrowings and loans from the ultimate holding company, net of bank balances and cash) and total assets.

The Group is not subject to any externally imposed capital requirements.

The Directors of the Company review the capital structure periodically. As part of this review, the Directors consider the cost of capital and the risks associated with each class of capital. Based on the recommendations of the Directors, the Group will balance its overall capital structure through the payment of dividends, sell assets to reduce debts, new share issues as well as the issue of new debt or the redemption of existing debts.

Net debt to total assets ratio

The net debt to total assets ratio at the end of the reporting period was as follows:

	2018 HK\$'000	2017 HK\$'000
Debts (Note a)	96,151	94,885
Bank balances and cash	<u>(4,537)</u>	<u>(5,822)</u>
Net debts	<u>91,614</u>	<u>89,063</u>
Total assets (Note b)	146,735	147,406
Net debt to total assets ratio	62.4%	60.4%

Notes:

- (a) Debts comprise borrowings of approximately HK\$62,565,000 and loans from the ultimate holding company of approximately HK\$33,586,000, as detailed in notes 29 and 30 respectively.
- (b) Total assets include all non-current assets and current assets.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

7. FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

	2018 HK\$'000	2017 HK\$'000
Financial assets		
Fair value through profit or loss (FVTPL)	–	3,567
At amortised cost	35,126	–
Loans and receivables (including bank balances and cash)	–	36,716
Financial liabilities		
Other financial liabilities at amortised cost	168,617	166,225

(b) Financial risk management objectives and policies

The Group's major financial instruments include trade and other receivables, financial assets at fair value through profit or loss, bank balances and cash, trade payables and other payables, bank borrowings, amounts due to a non-controlling shareholder of a subsidiary and loans from the ultimate holding company. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include credit risk, market risk (foreign currency risk, interest rate risk) and liquidity risk.

The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Credit risk management

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

In order to minimise the credit risk, the Group trades only with recognised and creditworthy third parties and the management of the Group has delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual trade and other receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 based on provision matrix or credit impaired. Details of the accounting policy for impairment of trade receivables has been disclosed in note 4.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management *(Continued)*

The Group considers the credit risk characteristics and the days past due to measure the expected credit losses. For the year ended 31 December 2018, the expected credit losses rate for customers of sales of goods is minimal, given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates. The assessed expected credit losses for trade receivables are not material.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments.

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

For other financial assets at amortised cost, including deposits and other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk management *(Continued)*

Receivable balances should be monitored and managed by management on an ongoing basis to ensure the Group's exposure to bad debt is minimised.

The Group has concentration of credit risk as approximately 39% (2017: approximately 42%) and approximately 55% (2017: approximately 64%) of the total trade and bills receivables which was due from the Group's largest customer and the total three largest customers respectively. The Group's concentration of credit risk by geographical locations is mainly in PRC, which accounted for approximately 100% (2017: approximately 100% in PRC) of the trade and bills receivables as at 31 December 2018. They have good historical repayment records and no default in payment.

The expected credit loss for bank balances and financial assets at fair value through profit or loss are limited because the counterparties are reputable banks located in Hong Kong and the PRC.

None of the Group's financial assets are secured by collateral or other credit enhancements.

The Group has no other significant concentration of credit risk, with exposure spreading over a number of counterparties.

Foreign currency risk management

The Group is not exposed to significant currency risk as most of its monetary assets and monetary liabilities are denominated in the functional currency of the individual group entity. The management is of the opinion that the Group's exposure to foreign currency risk is minimal. Accordingly, no foreign exchange risk sensitivity analysis is presented. The significant balance carried in the translation reserve account is occasioned by the translation of the financial statements of the Group's subsidiaries into the presentation currency of the consolidated financial statements of the Group at each reporting date.

In the management's opinion, the sensitivity analysis is unrepresentative of inherent foreign exchange risk as the year end exposure does not reflect the exposure during the year.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

7. FINANCIAL INSTRUMENTS *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Interest rate risk management

The Group's cash flow interest rate risk relates primarily to variable-rate borrowings and cash at bank. It is the Group's policy to keep its borrowings at floating rate of interest so as to minimise the fair value interest rate risk. The Group's exposure to cash flow interest rate risk is minimal.

The Group is also exposed to fair value interest rate risk in relation to loans from the ultimate holding company. The Group currently does not use any derivative contracts to hedge its exposure to fair value interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

The sensitivity analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2017: 100 basis points) increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points (2017: 100 basis points) higher/lower and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2018 would increase/decrease by approximately HK\$584,000 (2017: approximately HK\$546,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate borrowings.

Liquidity risk management

Liquidity risk is the risk that the Group is unable to meet its current obligations when they fall due. The Group's management policy is to regularly monitor its current and expected liquidity positions to ensure it has sufficient cash to meet its operational needs while maintaining sufficient headroom on its undrawn committed borrowing facilities at all time so that the Group can meet its short-term and long-term funding requirements and does not breach borrowing limits or covenants (where applicable) on any of its borrowing facilities.

The management will also closely monitor the cash flow generated from operations and the Group's needs for different types of external financing and will negotiate for proper facilities and consider proper means of equity financing as appropriate.

The table below analyses the Group's financial liabilities into relevant maturity groupings based on the remaining period at the balance sheet to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

Liquidity tables

	Weighted average effective interest rate	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	More than 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
2018							
Trade payables	-	2,375	60,195	-	-	62,570	62,570
Other payables	-	8,868	1,028	-	-	9,896	9,896
Loans from the ultimate holding company	6.25%	-	-	-	35,686	35,686	33,586
Borrowings	4.85%	252	504	64,835	-	65,591	62,565
		<u>11,495</u>	<u>61,727</u>	<u>64,835</u>	<u>35,686</u>	<u>173,743</u>	<u>168,617</u>

	Weighted average effective interest rate	Less than 1 month HK\$'000	1-3 months HK\$'000	3 months to 1 year HK\$'000	More than 1 year HK\$'000	Total undiscounted cash flows HK\$'000	Carrying amounts HK\$'000
2017							
Trade and bills payables	-	38,221	23,412	-	-	61,633	61,633
Other payables	-	5,201	4,506	-	-	9,707	9,707
Loans from the ultimate holding company	6.25%	-	-	-	26,620	26,620	25,054
Amounts due to a non-controlling shareholder of a subsidiary	-	-	-	9,903	-	9,903	9,903
Borrowings	5.06%	251	502	62,188	-	62,941	59,928
		<u>43,673</u>	<u>28,420</u>	<u>72,091</u>	<u>26,620</u>	<u>170,804</u>	<u>166,225</u>

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

7. FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives and policies (Continued)

Liquidity risk management (Continued)

Liquidity tables (Continued)

The Directors of the Company believe that based on the continuous financing support and undrawn facilities granted by its ultimate holding company, Oriental Success, which will be provided on a sub-ordinated basis, the liquidity of the Group will be improved. Therefore, the Directors consider that the Group has sufficient financial resources to satisfy its working capital requirements and payments of liabilities and its forthcoming future capital commitments as and when they fall due.

(c) Fair value estimation

Some of the Group's financial instruments are measured at fair value at the end of each reporting period on a recurring basis. The following table gives information about how the fair values of these financial instruments are determined (in particular, the valuation techniques and inputs used).

	Fair value As at 31 December		Fair value hierarchy	Valuation technique and key inputs
	2018 HK\$'000	2017 HK\$'000		
Financial assets				
Financial assets at fair value through profit or loss	–	3,567	Level 1	Quoted prices in active market

At the end of the reporting period, the Group had no Level 2 or 3 fair value measurements financial instruments.

There were no transfers into or out of Level 1 during the year.

Except for the financial assets that are measured at fair value on a recurring basis, the Directors of the Company consider that the carrying amounts of financial assets and financial liabilities recognised in the consolidated financial statements approximate their fair values.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

8. TURNOVER

Revenue represents the amounts received and receivable for goods sold net of discounts and sales related taxes. The Group recognised revenue at a point in time. An analysis of the Group's revenue for the year is as follows:

	2018 HK\$'000	2017 HK\$'000
Turnover from modified starch and other biochemical products	442,961	476,290
Turnover from general trading	37,891	35,843
Total	480,852	512,133

9. OTHER REVENUE

	2018 HK\$'000	2017 HK\$'000
Bank interest income	170	129
Reversal of write-down of inventories	4,484	149
Waived interest payable on convertible note	1,447	–
Others	931	1,327
Total	7,032	1,605

10. SEGMENT INFORMATION

The chief operating decision maker (“CODM”) has been identified as the Group's senior executive management. The CODM reviews the Group's internal reporting for resource allocation and assessment of performance.

For management purposes, the Group's reportable segments under HKFRS 8 are as follows:

Modified starch and other biochemical products	–	Manufacture and sale of modified starch and other biochemical products
General trading	–	Trading of electronic parts, components and electrical appliances

The reportable segments have been identified on the basis of internal management reports prepared in accordance with accounting policies conforming to HKFRSs and these reports are regularly reviewed by the CODM of the Company.

Segment results represent loss incurred or profit earned by each segment without allocation of other revenue, central administration costs (including Directors' salaries) and finance costs.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

10. SEGMENT INFORMATION (Continued)

Business segments

Segment revenues and results

The following is an analysis of the Group's revenues and results by reportable and operating segment:

For the year ended 31 December 2018

	Modified starch and other biochemical products HK\$'000	General trading HK\$'000	Total HK\$'000
Segment revenue	442,961	37,891	480,852
Segment results	4,025	184	4,209
Other revenue			2,548
Central administration costs			(13,838)
Equity-settled share-based payment			(39,864)
Finance costs			(6,060)
Loss before tax			(53,005)
Income tax expense			(149)
Loss for the year			(53,154)

For the year ended 31 December 2017

	Modified starch and other biochemical products HK\$'000	General trading HK\$'000	Total HK\$'000
Segment revenue	476,290	35,843	512,133
Segment results	(4,666)	185	(4,481)
Other revenue			1,456
Central administration costs			(12,699)
Finance costs			(4,907)
Loss before tax			(20,631)
Income tax expense			(111)
Loss for the year			(20,742)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

10. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Segment assets and liabilities

At 31 December 2018

	Modified starch and other biochemical products HK\$'000	General trading HK\$'000	Consolidated HK\$'000
Assets			
Segment assets	145,539	547	146,086
Unallocated assets			649
Consolidated assets			146,735
Liabilities			
Segment liabilities	(141,944)	(7,929)	(149,873)
Unallocated liabilities			(42,145)
Consolidated liabilities			(192,018)
Geographical assets			
Hong Kong			1,196
Macau			-
PRC			145,539
			146,735

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

10. SEGMENT INFORMATION (Continued)

Business segments (Continued)

Segment assets and liabilities (Continued)

At 31 December 2017

	Modified starch and other biochemical products HK\$'000	General trading HK\$'000	Consolidated HK\$'000
Assets			
Segment assets	145,827	1,229	147,056
Unallocated assets			<u>350</u>
Consolidated assets			<u>147,406</u>
Liabilities			
Segment liabilities	(143,201)	(2,931)	(146,132)
Unallocated liabilities			<u>(33,293)</u>
Consolidated liabilities			<u>(179,425)</u>
Geographical assets			
Hong Kong			1,573
Macau			6
PRC			<u>145,827</u>
			<u>147,406</u>

For the purposes of monitoring segment performance and allocating resources between segments:

- assets used jointly by reportable segments are allocated on the basis of the revenues earned by individual segments; and
- liabilities for which reportable segments are jointly liable are allocated in proportion to segment assets.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

10. SEGMENT INFORMATION (Continued)

Other segment information

For the year ended 31 December 2018

	Modified starch and other biochemical products HK\$'000	General trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions to property, plant and equipment	6,563	-	-	6,563
Depreciation and amortisation	4,209	135	-	4,344
Impairment losses, net of reversal	(537)	-	-	(537)
Loss on disposal of property, plant and equipment	238	-	-	238
Reversal of write-down of inventories	(4,484)	-	-	(4,484)

At 31 December 2017

	Modified starch and other biochemical products HK\$'000	General trading HK\$'000	Unallocated HK\$'000	Total HK\$'000
Additions to property, plant and equipment	8,270	4	-	8,274
Depreciation and amortisation	4,411	135	-	4,546
Impairment losses, net of reversal	4,214	23	-	4,237
Reversal of write-down of inventories	(149)	-	-	(149)

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

10. SEGMENT INFORMATION (Continued)

Geographical information

For the years ended 31 December 2018 and 2017, the Group's operations were principally located in Hong Kong (country of domicile) and PRC with revenue and profits from its operations.

The following is an analysis of the Group's revenue from external customers and non-current assets by geographical locations:

	Revenue from external customers		Non-current assets	
	2018 HK\$'000	2017 HK\$'000	2018 HK\$'000	2017 HK\$'000
Hong Kong	37,891	35,843	396	531
PRC	442,961	476,290	71,967	74,168
	480,852	512,133	72,363	74,699

Information on major customers

Revenues from customers from manufacturing and sale of modified starch and other biochemical products of the corresponding years contributing over 10% of the total turnover of the Group are as follows:

	2018 HK\$'000	2017 HK\$'000
Customer A	98,147	125,703
Customer B ¹	N/A	54,118
Customer C	92,950	N/A

¹ Customer B contributed no revenue for the year ended 31 December 2018.

No other single customer contribute 10% or more to the Group's turnover.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

11. FINANCE COSTS

	2018 HK\$'000	2017 HK\$'000
Interests on:		
– Bank loans and bank overdrafts	3,769	3,394
– Loans from the ultimate holding company	1,884	1,251
– Short-term loan from an independent third party	161	160
– Bills payables	246	102
Total	6,060	4,907

12. IMPAIRMENT LOSSES, NET OF REVERSAL

	2018 HK\$'000	2017 HK\$'000
Impairment loss on trade and bills receivables	–	3,591
Impairment loss on deposit, prepayments and other receivables	116	646
Reversal of impairment loss on trade and bills receivables	(312)	–
Reversal of impairment loss on deposit, prepayments and other receivables	(341)	–
Total	(537)	4,237

13. INCOME TAX EXPENSE

	2018 HK\$'000	2017 HK\$'000
The income tax expense comprises:		
Current income tax:		
PRC Enterprise Income Tax	149	111

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

13. INCOME TAX EXPENSE (Continued)

On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK\$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK\$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the consolidated financial statements. Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

No provision for taxation in Hong Kong Profits Tax has been made as the Group has no assessable profits in Hong Kong for both years.

PRC subsidiaries are subject to PRC Enterprise Income Tax at 25% for both years. Taxation arising in other jurisdictions is calculated at the rates prevailing in the relevant jurisdictions.

The provision for Macau Complementary Tax is calculated at 12% (2017: 12%) of the estimated assessable profits for the year. Assessable profits of the first Macau Patacas ("MOP") 600,000 (equivalent to approximately \$583,000) (2017: MOP600,000 (equivalent to approximately \$588,000)) are exempted from Macau Complementary Tax.

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

	2018 HK\$'000	2017 HK\$'000
Loss before income tax	<u>(53,005)</u>	<u>(20,631)</u>
Tax at the Hong Kong profits tax rate of 16.5% (2017: 16.5%)	(8,746)	(3,404)
Effect of different tax rates of subsidiaries in other jurisdictions	70	(589)
Tax effect of expenses not deductible for tax purpose	8,179	2,198
Tax effect of income not taxable for tax purpose	(504)	(28)
Tax effect of deductible temporary differences not recognised	10	6
Tax effect on tax reduction	(10)	(10)
Tax effect of tax losses not recognised	<u>1,150</u>	<u>1,938</u>
Income tax expense for the year	<u>149</u>	<u>111</u>

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

13. INCOME TAX EXPENSE (Continued)

At 31 December 2018, the Group has unused tax losses of approximately HK\$159,370,000 (2017: approximately HK\$164,224,000) available to offset against future profits. No deferred tax asset has been recognised in respect of these tax losses due to the unpredictability of future profit streams of the Group.

There was no unrecognised deferred tax liabilities, relating to withholding tax that would be payable for undistributed profits of PRC subsidiaries in both years, as the Directors consider that the timing for reversal of the related temporary differences can be controlled and such temporary differences will not be reversed in the foreseeable future. The total unused loss of these PRC subsidiaries as at 31 December 2018 amounted to approximately HK\$26,957,000 (2017: approximately HK\$23,547,000).

14. LOSS FOR THE YEAR

	2018 HK\$'000	2017 HK\$'000
Loss for the year has been arrived at after charging (crediting):		
Auditor's remuneration	500	500
Cost of inventories recognised as an expense (Note 21)	465,330	499,203
Impairment losses, net of reversal	(537)	4,237
Reversal of write-down of inventories	(4,484)	(149)
Depreciation on property, plant and equipment	3,619	3,841
Loss on disposal of property, plant and equipment	238	–
Equity-settled share-based payment	39,864	–
Amortisation of prepaid land lease payments	725	705
Staff costs (including Directors' emoluments and retirement benefit costs)	5,727	6,772

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

15. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES)

(a) Directors' and chief executive's emoluments

The aggregate amounts of emoluments paid or payable to Directors and chief executive of the Company during the year were as follows:

	2018 HK\$'000	2017 HK\$'000
Fees	360	360
Other emoluments:		
Basic salaries, other allowance and benefits in kind	1,400	1,400
Retirement benefit costs		
– Defined contribution retirement plans	9	9
	1,409	1,409
Total emoluments	1,769	1,769

Directors' and chief executive's remuneration for the year, disclosed pursuant to the applicable Listing Rules and CO, is as follows:

	Other emoluments			2018 Total emoluments HK\$'000
	Directors' fees HK\$'000	Basic salaries, other allowance and benefits in kind HK\$'000	Defined contribution retirement plans HK\$'000	
Executive Directors:				
Lam Ching Kui (Chief Executive Officer)	–	1,400	9	1,409
Independent Non-executive Directors:				
Chan Chun Wai, Tony	120	–	–	120
Hau Pak Man	120	–	–	120
To Yan Ming, Edmond	120	–	–	120
Total	360	1,400	9	1,769

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

15. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (Continued)

(a) Directors' and chief executive's emoluments (Continued)

	Other emoluments			2017 Total emoluments HK\$'000
	Directors' fees HK\$'000	Basic salaries, other allowance and benefits in kind HK\$'000	Defined contribution retirement plans HK\$'000	
Executive Director: Lam Ching Kui (Chief Executive Officer)	-	1,400	9	1,409
Independent Non-executive Directors:				
Chan Chun Wai, Tony	120	-	-	120
Hau Pak Man	120	-	-	120
To Yan Ming, Edmond	120	-	-	120
Total	<u>360</u>	<u>1,400</u>	<u>9</u>	<u>1,769</u>

No director waived any emoluments in the years ended 31 December 2018 and 2017. No incentive payment for joining the Group was paid or payable to any directors during the years ended 31 December 2018 and 2017.

The executive director's emolument shown above was mainly for his services in connection with the management of the affairs of the Company and the Group during the years ended 31 December 2018 and 2017.

The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company or its subsidiaries during the years ended 31 December 2018 and 2017.

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year (2017: Nil).

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

15. BENEFITS AND INTERESTS OF DIRECTORS (DISCLOSURES REQUIRED BY SECTION 383 OF THE HONG KONG COMPANIES ORDINANCE (CAP. 622), COMPANIES (DISCLOSURE OF INFORMATION ABOUT BENEFITS OF DIRECTORS) REGULATION (CAP. 622G) AND HK LISTING RULES) (Continued)

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2017: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2018, the Company did not pay consideration to any third parties for making available directors' services (2017: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporates and connected entities with such directors

During the year ended 31 December 2018, there is no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2017: Nil).

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

No significant transactions, arrangements and contracts in relation to the Company's business to which the Company 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 (2017: Nil).

16. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees of the Group during the year included one Executive Director of the Company (2017: one Executive Director), details of whose remuneration are set out in note 15. Details of the remuneration for the year of the four (2017: four) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 HK\$'000	2017 HK\$'000
Basic salaries, other allowance and benefits in kind	1,412	1,631
Equity-settled share option expense	7,240	–
Retirement benefit costs		
– Defined contribution retirement plans	54	72
Total	8,706	1,703

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

16. FIVE HIGHEST PAID EMPLOYEES (Continued)

The number of the highest paid employees who are not the directors of the Company whose remuneration fell within the following bands is as follows:

	2018 Number of individuals	2017 Number of individuals
Nil – 1,000,000	3	4
7,500,001 – 8,000,000	1	–
	<u>4</u>	<u>4</u>

During the year, certain non-director and non-chief executive highest paid employees were granted share options, in respect of their services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in note 37 to the Group's consolidated financial statements.

No emoluments were paid to the Directors of the Company or the remaining four (2017: four) highest paid individuals as an inducement to join or upon joining the Group or as compensation for loss of office during each of the two years ended 31 December 2018 and 2017.

17. DIVIDEND

No dividend was paid or proposed for ordinary shareholders of the Company during 2018 and 2017, nor has any dividend been proposed since the end of the reporting period.

18. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share is based on loss attributable to owners of the Company of approximately HK\$53,617,000 (2017: approximately HK\$17,399,000) and the number of 16,590,685,376 ordinary shares (2017: weighted average number of 16,292,603,184 ordinary shares) in issue.

	2018 Number of shares	2017 Number of shares
Number of ordinary shares (2017: Weighted average number of ordinary shares)		
Issued ordinary shares at 1 January	16,590,685,376	16,270,685,376
Effect of conversion of convertible preference shares	–	21,917,808
Number of ordinary shares (2017: Weighted average number of ordinary shares) at 31 December	<u>16,590,685,376</u>	<u>16,292,603,184</u>

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

18. LOSS PER SHARE (Continued)

(b) Diluted loss per share

Diluted loss per share is calculated by adjusting the number of ordinary shares outstanding due to the effect of all dilutive potential ordinary shares and the Group's loss attributable to owners of the Company.

The Company has dilutive potential ordinary shares attributable to share options and convertible preference shares. The calculation of diluted loss per share in the current year does not assume the exercise of the share options and the conversion of convertible preference shares since their exercise would result in a decrease in loss per share. Accordingly, the diluted loss per share is same as the basic loss per share.

19. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK\$'000	Construction in progress HK\$'000	Leasehold improvements, furniture and fixtures HK\$'000	Machinery and equipment HK\$'000	Motor vehicles HK\$'000	Total HK\$'000
Cost						
At 1 January 2017	18,335	4,362	2,885	26,744	955	53,281
Exchange difference	1,381	300	-	2,030	25	3,736
Additions	1,750	6,319	-	205	-	8,274
Transfer	2,678	(8,177)	-	5,499	-	-
At 31 December 2017 and 1 January 2018	24,144	2,804	2,885	34,478	980	65,291
Exchange difference	(1,327)	(300)	-	(1,774)	(8)	(3,409)
Additions	1,648	4,384	-	531	-	6,563
Disposal	-	-	-	(1,509)	(281)	(1,790)
At 31 December 2018	24,465	6,888	2,885	31,726	691	66,655
ACCUMULATED DEPRECIATION						
At 1 January 2017	3,866	-	2,884	10,535	224	17,509
Exchange difference	334	-	-	894	18	1,246
Charge for the year	1,031	-	1	2,652	157	3,841
At 31 December 2017 and 1 January 2018	5,231	-	2,885	14,081	399	22,596
Exchange difference	(322)	-	-	(779)	(7)	(1,108)
Charge for the year	1,231	-	-	2,238	150	3,619
Disposal	-	-	-	(947)	(233)	(1,180)
At 31 December 2018	6,140	-	2,885	14,593	309	23,927
CARRYING AMOUNTS						
At 31 December 2018	18,325	6,888	-	17,133	382	42,728
At 31 December 2017	18,913	2,804	-	20,397	581	42,695

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

19. PROPERTY, PLANT AND EQUIPMENT (Continued)

The above items of property, plant and equipment, other than construction in progress, are depreciated after taking into account their estimated residual value, using a straight-line method over the following rates per annum:

Buildings	Over the shorter of the term of the lease, or 15–20 years
Leasehold improvements	Over the shorter of the term of the lease, or 20%–33.33%
Furniture and fixtures	20%–33.33%
Machinery and equipment	6.6%–33.33%
Motor vehicles	10%–20%

Construction in progress represents land and building under construction and plant and equipment pending for installation in the PRC.

20. PREPAID LAND LEASE PAYMENTS

	2018 HK\$'000	2017 HK\$'000
Carrying amount:		
At 1 January	32,739	31,128
Exchange difference	(1,683)	2,316
Amortisation	(725)	(705)
At 31 December	30,331	32,739
Analysed for reporting purposes as:		
Current portion	696	735
Non-current portion	29,635	32,004
	30,331	32,739

Prepaid land lease payments represent prepayments of land use rights premium to the PRC government authority. The Group's land use rights are located in the PRC for industrial purpose. The Group's land use rights are granted for a period of 50 years and are classified as long-term lease.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

21. INVENTORIES

	2018 HK\$'000	2017 HK\$'000
Raw materials	9,434	4,975
Finished goods	18,982	20,912
Other consumables	74	82
Total	<u>28,490</u>	<u>25,969</u>

	2018 HK\$'000	2017 HK\$'000
Carrying amount of inventories sold	469,814	499,352
Reversal of write-down of inventories	(4,484)	(149)
	<u>465,330</u>	<u>499,203</u>

The reversal of write-down of inventories made in current and prior years arose upon sale of those inventories.

22. TRADE AND BILLS RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Trade receivables	27,646	35,547
Bills receivable	186	–
	<u>27,832</u>	<u>35,547</u>
Less: Provision for impairment	(5,692)	(13,029)
Total	<u>22,140</u>	<u>22,518</u>

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

22. TRADE AND BILLS RECEIVABLES (Continued)

The Group allows average credit period of 30 to 180 days to its customers. Receivables that were current relate to customers for whom there was no recent history of default. As at 31 December 2018, the Group has assessed the recoverability of the receivables past due and made a provision for impairment. The provision for impairment is made unless the Group has concluded that recovery is remote, in which case the unrecovered loss is written off against trade and bills receivables and the provision for impairment directly. The Group does not hold any collateral over these balances.

The ageing analysis of trade and bills receivables based on the invoice dates and net of provision for impairment, as at the reporting date, is as follows:

	2018 HK\$'000	2017 HK\$'000
0-30 days	14,515	10,322
31-60 days	4,870	6,471
61-90 days	310	2,032
91-180 days	2,445	3,693
Total	22,140	22,518

As at 31 December 2018, included in the trade and bills receivables were an aggregate amount of HK\$22,140,000 which are not past due and regarded as having low default risk by the management of the Company based on regular repayment history in the ECL assessment.

The management of the Group have assessed the ECL of all trade and bills receivables as insignificant and therefore it did not result in an impairment allowance for the current year.

The movements in the provision for impairment of trade and bills receivables are as follows:

	2018 HK\$'000	2017 HK\$'000
At 1 January	13,029	9,438
Provision for impairment	–	3,591
Reversal of impairment	(312)	–
Write-off as uncollectible	(7,025)	–
At 31 December	5,692	13,029

No trade receivables were past due but not impaired in both years.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

23. DEPOSITS, PREPAYMENTS AND OTHER RECEIVABLES

	2018 HK\$'000	2017 HK\$'000
Prepayments for inventories	6,150	3,984
Other prepayments	3,910	1,735
Other receivables	7,746	7,616
Rental and utilities deposits	703	761
Total	<u>18,509</u>	<u>14,096</u>

During the year, an impairment loss on deposits, prepayment and other receivables of approximately HK\$116,000 (2017: approximately HK\$646,000) and reversal of impairment loss on deposits, prepayment and other receivables approximately HK\$341,000 (2017: Nil) in prior year. At 31 December 2018, the accumulated provision for impairment of deposits, prepayments and other receivables is HK\$7,731,000 (2017: HK\$7,956,000).

24. BANK BALANCES AND CASH

	2018 HK\$'000	2017 HK\$'000
Cash at bank	4,182	5,319
Cash on hand	355	503
Total	<u>4,537</u>	<u>5,822</u>

As at 31 December 2018, the balances that were placed with banks in the PRC amounted to approximately HK\$4,252,000 (2017: approximately HK\$5,208,000). Remittance of funds out of the PRC is subject to the exchange restrictions imposed by the PRC government.

Bank balances carry interest at market rates which range from 0.125% to 0.35% (2017: 0.5% to 3%) per annum.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

25. TRADE PAYABLES

	2018 HK\$'000	2017 HK\$'000
Trade payables	<u>62,570</u>	<u>61,633</u>

The average credit period on purchases of goods ranges from 30 to 180 days. The Group has financial risk management policies to ensure that all payables are paid within the credit timeframe. The following is an ageing analysis of trade payables based on the invoice date:

	2018 HK\$'000	2017 HK\$'000
0-30 days	16,413	18,367
31-60 days	31,188	2,746
61-90 days	3,420	39,084
91-180 days	9,173	360
Over 180 days	<u>2,376</u>	<u>1,076</u>
Total	<u>62,570</u>	<u>61,633</u>

26. ACCRUALS AND OTHER PAYABLES

	2018 HK\$'000	2017 HK\$'000
Payroll and welfare payables	5,828	4,723
Accrued operating expenses	10,267	6,486
Receipts in advance from customers	–	8,159
Other tax payables	784	1,135
Accrued construction payment	1,245	1,097
Others (Note)	<u>8,886</u>	<u>1,246</u>
Total	<u>27,010</u>	<u>22,846</u>

Note: the amount of approximately HK\$8,478,000 was reclassified from amount due to a former shareholder in 2017.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

27. CONTRACT LIABILITIES

	Note	As at 31 December 2018 HK\$'000	As at 1 January 2018 HK\$'000
Receipts in advance from sales of modified starch and other biochemical products	(a)	<u>6,241</u>	<u>8,159</u>

Notes:

- (a) The Group has initially applied HKFRS 15 using the cumulative effect method and adjusted the opening balance as at 1 January 2018.
- (b) Upon the adoption of HKFRS 15, amount previously included in "Accruals and other payables" (note 26) were reclassified to "Contract liabilities".

The balance of contract liabilities as at 1 January 2018 was HK\$8,159,000, in which HK\$7,990,000 was recognised as revenue during the year.

28. AMOUNTS DUE TO A NON-CONTROLLING SHAREHOLDER OF A SUBSIDIARY

The amounts due are unsecured, interest free and repayable on demand. The Directors consider that its carrying amount approximates its fair value.

29. BORROWINGS

	Notes	2018 HK\$'000	2017 HK\$'000
Bank loans, secured	(a)	<u>59,995</u>	57,358
Loan from an independent third party, unsecured	(b)	<u>2,570</u>	2,570
Total		<u>62,565</u>	<u>59,928</u>

Notes:

- (a) It was secured by an independent third party and the pledge of the prepaid land lease payments with carrying amounts of approximately HK\$19,078,000 (2017: approximately HK\$20,587,000). All bank loans are denominated in Renminbi with variable interest rate from 4.35% to 5.22% (2017: 4.1% to 5.0%) per annum.
- (b) Bearing interest at 1% above Hong Kong Prime Rate per annum.

30. LOANS FROM THE ULTIMATE HOLDING COMPANY

The loans were sub-ordinated in nature which were unsecured, interest bearing at 6.25% for both years.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

31. SHARE CAPITAL – ORDINARY SHARES

	Note	Number of shares of HK\$0.0025 each	Amount HK\$'000
Authorised:			
Balance as at 1 January 2017, 31 December 2017 and 31 December 2018		40,000,000,000	100,000
Issued and fully paid:			
Balance as at 1 January 2017		16,270,685,376	40,677
Conversion of convertible preference shares		320,000,000	800
Balance as at 31 December 2017, 1 January 2018 and 31 December 2018	(a)	16,590,685,376	41,477

Note:

(a) The shares issued rank pari passu with other shares in issue in all respect.

32. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES

		Number of convertible preference shares of HK\$0.0025 each	Amount HK\$'000
Authorised:			
Balance as at 1 January 2017, 31 December 2017 and 31 December 2018		816,000,000	2,040
Issued and fully paid:			
Balance as at 1 January 2017		536,960,000	1,342
Conversion of convertible preference shares		(320,000,000)	(800)
Balance as at 31 December 2017, 1 January 2018 and 31 December 2018		216,960,000	542

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For the Year Ended 31 December 2018

32. SHARE CAPITAL – CONVERTIBLE PREFERENCE SHARES *(Continued)*

The convertible preference shares are non-redeemable, carry no voting right and each of the convertible preference share is convertible into one ordinary share at any time before the fifth anniversary of the issue date of convertible shares. The convertible preference shareholder is entitled to receive dividend pari passu with ordinary shareholders on an as converted basis.

33. EMPLOYEE RETIREMENT BENEFITS

The employees of PRC subsidiaries are members of central pension scheme organised by PRC municipal and provincial government authorities in the PRC. The PRC subsidiaries are required to make monthly contributions to these plans at a fixed percentage of the employee's basic salary.

The Group also operates a MPF scheme for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF scheme is a defined contribution retirement plan administered by independent trustees.

The total expense recognised in the consolidated statement of profit or loss amounting to approximately HK\$1,172,000 (2017: approximately HK\$873,000) represents contribution payable to these plans by the Group at rates specified in the rules of the plans.

34. OPERATING LEASES COMMITMENTS

The Group as lessee

	2018 HK\$'000	2017 HK\$'000
Lease payments in respect of rented premises paid under operating leases during the year	3,689	3,388

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

34. OPERATING LEASES COMMITMENTS (Continued)

The Group as lessee (Continued)

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases in respect of office premises which fall due as follows:

	2018 HK\$'000	2017 HK\$'000
Within one year	591	584

Operating lease payments represent rental payable by the Group for its office premises in Hong Kong. Leases and rentals are negotiated and fixed respectively for an average term of two years.

35. PLEDGE OF ASSETS

The Group's prepaid land lease payments in the PRC with carrying amount of approximately HK\$19,078,000 (2017: approximately HK\$20,587,000) have been pledged to secure the bank loans and general banking facilities granted to the Group.

36. RELATED PARTY TRANSACTIONS

Balances and transactions between the Company and its subsidiaries, which are related parties of the Company, have been eliminated on consolidation and are not disclosed in this note. Details of transactions between the Group and other related parties are disclosed below.

(a) Transactions with related parties

During the year, the Group entered into the following transactions with related parties. The transactions were carried out at estimated market prices determined by the Directors of the Company.

Name of related parties	Nature of transactions	2018 HK\$'000	2017 HK\$'000	Interested party	Relationship
Oriental Success Ventures Limited	Interest expenses	1,884	1,251	Lam Ching Kui	Director
Wai Chun Holdings Group Limited	Rental expenses	3,506	3,241	Lam Ching Kui	Director

Notes to the Consolidated Financial Statements

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36. RELATED PARTY TRANSACTIONS (Continued)

(b) Outstanding balances with related parties

Details of the Group's balances with a non-controlling shareholder of a subsidiary and loans from the ultimate holding company as at the end of the reporting period are disclosed in note 28 and note 30 to the consolidated financial statements respectively.

Included in accruals, salary payables to Mr. Lam Ching Kui ("Mr. Lam") and Mrs. Lam, the spouse of Mr. Lam, are HK\$3,991,000 (2017: HK\$2,591,000) and HK\$353,000 (2017: HK\$353,000) respectively at 31 December 2018. Rental payables to Wai Chun Holdings Group is HK\$6,362,000 (2017: HK\$2,856,000) at 31 December 2018.

(c) Key management personnel remuneration

The remuneration of Directors of the Company and other members of key management personnel during the year were as follows:

	2018 HK\$'000	2017 HK\$'000
Short-term employee benefits	10,413	2,560
Defined contribution retirement plans	63	45
Total	10,476	2,605

37. SHARE-BASED PAYMENT TRANSACTIONS

Pursuant to a share option scheme adopted by the shareholders of the Company on 22 July 2015 (the "Share Option Scheme"), the Company may, at their discretion, invite executive or non-executive director, employee (whether full-time or part-time), chief executive, substantial shareholder, consultant, professional and other adviser to take up options.

The subscription price of the Share Option Scheme will be determined at the highest of (i) the closing price of the shares as stated in the Stock Exchange's daily quotations sheet on the date on which an option is granted; (ii) the average closing prices of the shares as stated in the Stock Exchange's daily quotations sheets for the 5 business days immediately preceding the date on which an option is granted; and (iii) the nominal value of a share.

The total number of shares which may be issued upon exercise of all options to be granted under the Share Option Scheme and any other share option schemes of the Group shall not in aggregate exceed 10% of the total number of shares in issue as at the adoption date. Besides, the maximum number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes of the Group in issue shall not exceed 30% of the relevant class of the shares in issue from time to time. The total number of shares issued and to be issued upon exercise of the options granted to each participant in any 12-month period shall not exceed 1% of the total number of shares in issue.

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37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

Options granted under the Share Option Scheme must be taken up within 30 days of the grant upon payment of HK\$1.00 per grant.

As at 31 December 2018, the number of shares in respect of the options granted and remained outstanding under the Share Option Scheme was 1,595,468,537, representing 9.6% of the issued shares of the Company. As at the date of this report, the number of shares available for issue under the Share Option Scheme was 63,600,000 representing 0.4% of the issued shares of the Company.

Movements of the Company's share options held by consultants and an employee during the year ended 31 December 2017 and 31 December 2018 are set out below:

Category of participants	Number of share options			As at 31 December 2018	Date of grant	Exercise period	Exercise price HK\$
	As at 1 January 2018	Granted	Exercised				
Consultants	536,932,614	-	-	536,932,614	12 January 2016	12 January 2016 to 11 January 2021	0.0686
Employee	162,706,853	-	-	162,706,853	12 January 2016	12 January 2016 to 11 January 2021	0.0686
Consultants	-	733,122,217	-	733,122,217	16 July 2018	16 July 2018 to 15 July 2023	0.0720
Employee	-	162,706,853	-	162,706,853	16 July 2018	16 July 2018 to 15 July 2023	0.0720
Total	<u>699,639,467</u>	<u>895,829,070</u>	<u>-</u>	<u>1,595,468,537</u>			
Exercisable at the end of the year				<u>1,595,468,537</u>			

Category of participants	Number of share options			As at 31 December 2017	Date of grant	Exercise period	Exercise price HK\$
	As at 1 January 2017	Granted	Exercised				
Consultants	536,932,614	-	-	536,932,614	12 January 2016	12 January 2016 to 11 January 2021	0.0686
Employee	162,706,853	-	-	162,706,853	12 January 2016	12 January 2016 to 11 January 2021	0.0686
Total	<u>699,639,467</u>	<u>-</u>	<u>-</u>	<u>699,639,467</u>			
Exercisable at the end of the year				<u>699,639,467</u>			

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For the Year Ended 31 December 2018

37. SHARE-BASED PAYMENT TRANSACTIONS (Continued)

On 12 January 2016, the Company granted a total of 699,639,467 share options under the Share Option Scheme to consultants and an employee of the Group. The exercise period of the options is 5 years from the date of grant of the options, i.e. from 12 January 2016 to 11 January 2021. The options will entitle the grantees to subscribe for a total of 699,639,467 new shares of HK\$0.0025 each at an exercise price of HK\$0.0686 per share.

On 16 July 2018 the Company granted a total of 895,829,070 share options under the Share Option Scheme to consultants and an employee of the Group. The exercise period of the options is 5 years from the date of grant of the options, i.e. from 16 July 2018 to 15 July 2023. The options will entitle the grantees to subscribe for a total of 895,829,070 new shares of HK\$0.0025 each at an exercise price of HK\$0.0720 per share.

The fair value of the share options determined at the date of grant was calculated by independent valuer using the binomial option pricing model, taking into account the terms and conditions upon which the options were granted. The following table lists the inputs to the model used:

Grant date	12 January 2016	16 July 2018
Exercise price (HK\$)	0.0686	0.0720
Share price at the date of grant (HK\$)	0.0660	0.0720
Dividend yield (%)	–	–
Expected volatility (%)	93.245	90.196
Risk-free interest rate (%)	0.941	2.094
Expected life of options (years)	5	5

The binomial option model has been used to estimate the fair value of the options. The variables and assumptions used in computing the fair value of the share options are based on the Directors' best estimate. Changes in variables and assumptions may result in changes in the fair value of the options.

The fair value of the share options granted during the year ended 31 December 2018 was approximately HK\$39,864,000. The fair value per option granted was HK cents 4.45. The Group recognised share-based payment expenses of approximately HK\$39,864,000 for the year ended 31 December 2018.

38. NON-CASH TRANSACTION

During the year ended 31 December 2018, the Company granted a total 895,829,070 share options under the Share Option Scheme to consultants and an employee of the Group. The Group recognised share-based payment expenses of approximately HK\$39,864,000 for the year ended 31 December 2018.

Notes to the Consolidated Financial Statements

For the Year Ended 31 December 2018

39. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

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

	Amounts due to a non- controlling shareholder of a subsidiary	Loans from the ultimate holding company	Borrowings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2018	9,903	25,054	59,928	94,885
Proceeds from loans	–	6,648	62,456	69,104
Repayment of loans	–	–	(56,589)	(56,589)
Repayment to non-controlling shareholder	(1,292)	–	–	(1,292)
Finance costs	–	1,884	–	1,884
Foreign exchange translation	(133)	–	(3,230)	(3,363)
Reclassification	(8,478)	–	–	(8,478)
Total	–	33,586	62,565	96,151
	Amounts due to a non- controlling shareholder of a subsidiary	Loans from the ultimate holding company	Borrowings	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 January 2017	14,561	15,049	55,854	85,464
Proceeds from loans	–	8,754	55,069	63,823
Repayment of loans	–	–	(55,011)	(55,011)
Repayment to non-controlling shareholder	(5,524)	–	–	(5,524)
Finance costs	–	1,251	–	1,251
Foreign exchange translation	866	–	4,016	4,882
At 31 December 2017	9,903	25,054	59,928	94,885

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40. SUMMARISED STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	Notes	2018 HK\$'000	2017 HK\$'000
Non-current asset			
Interests in subsidiaries	42	378	378
Current assets			
Inventories		74	82
Deposits, prepayments and other receivables		152	232
Amounts due from subsidiaries (Note a)		1,880	4,527
Bank balances and cash		5	30
		2,111	4,871
Current liabilities			
Accruals and other payables		7,087	5,310
Borrowings		2,570	2,570
Amounts due to a subsidiary (Note a)		342	342
		9,999	8,222
Net current liabilities		(7,888)	(3,351)
Total assets less current liabilities		(7,510)	(2,973)
Non-current liability			
Loans from the ultimate holding company	30	33,586	24,997
Net liabilities		(41,096)	(27,970)
Capital and reserves			
Share capital	31	41,477	41,477
Convertible preference shares	32	542	542
Reserves	41	(83,115)	(69,989)
Capital deficiency		(41,096)	(27,970)

Note a: The amounts due from/to subsidiaries are unsecured, interest free and had no fixed term of repayment.

The Company's statement of financial position was approved and authorised for issue by the Board of Directors on 29 March 2019 and is signed on its behalf by:

Mr. Lam Ching Kui
Director

Mr. Chan Chun Wai, Tony
Director

Notes to the Consolidated Financial Statements

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41. RESERVES

The Company

	Share premium HK\$'000	Other reserves HK\$'000	Share option reserves HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
At 1 January 2017	209,982	62,934	23,228	(355,241)	(59,097)
Total comprehensive expense for the year	-	-	-	(10,892)	(10,892)
At 31 December 2017 and 1 January 2018	209,982	62,934	23,228	(366,133)	(69,989)
Total comprehensive expense for the year	-	-	-	(52,990)	(52,990)
Recognition of equity-settled share-based payment	-	-	39,864	-	39,864
At 31 December 2018	209,982	62,934	63,092	(419,123)	(83,115)

42. SUBSIDIARIES

(a) Particulars of principal subsidiaries of the Company

Name of company	Place of incorporation/ establishment	Issued and fully paid up share capital/ registered capital	Proportion of ownership interest and voting power held by the Company				Principal activities
			Directly		Indirectly		
			2018	2017	2018	2017	
Wai Chun Industrial (HK) Limited	Hong Kong	1,000 ordinary share of HK\$1 each	-	-	100%	100%	Investment holding
Great Luck Limited	Macau	Registered capital MOP25,000	-	-	100%	100%	General trading
Weifang Century-Light Biology Science Co., Ltd. ("Weifang Century-Light")	PRC	Registered capital USD2,929,000	-	-	51%	51%	Manufacturing of modified starch and other biochemical products
Weifang Jia You You Zhi Co., Ltd. ("Weifang You Zhi")	PRC	Registered capital RMB10,000,000	-	-	51%	51%	Manufacturing of modified starch and other biochemical products

The above table lists the subsidiaries of the Group which, in the opinion of the Directors of the Company, principally affected the results or assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors of the Company, result in particulars of excessive length.

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42. SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of Incorporation and principal place of business	Proportion of ownership interests held by non-controlling interests		Profit (loss) for the year allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	2018	2017	2018	2017
		HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Weifang Century-Light and its subsidiary	PRC	49%	49%	463	(3,343)	1,762	1,287

Note:

Summarised financial information in respect of the Weifang Century-light and its subsidiary that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

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42. SUBSIDIARIES (Continued)

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests (Continued)

	Weifang Century-light and its subsidiary	
	2018 HK\$'000	2017 HK\$'000
Current assets	<u>73,572</u>	<u>71,659</u>
Non-current assets	<u>71,967</u>	<u>74,168</u>
Current liabilities	<u>(141,944)</u>	<u>(143,201)</u>
Equity attributable to owners of Weifang Century-Light Group	<u>1,833</u>	<u>1,339</u>
Non-controlling interests	<u>1,762</u>	<u>1,287</u>
Revenue	<u>449,181</u>	<u>478,749</u>
Expenses	<u>(448,235)</u>	<u>(485,569)</u>
Profit (loss) and total comprehensive income (expenses) for the year attributable to:		
Owners of the Company	<u>471</u>	<u>(3,195)</u>
Non-controlling interests	<u>475</u>	<u>(3,070)</u>
	<u>946</u>	<u>(6,265)</u>
Net cash generated from operating activities	<u>9,339</u>	<u>18,507</u>
Net cash used in investing activities	<u>(2,501)</u>	<u>(10,149)</u>
Net cash used in financing activities	<u>(7,673)</u>	<u>(8,962)</u>
Net decrease in cash and cash equivalents	<u>(835)</u>	<u>(604)</u>

43. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation. The Group has initially applied HKFRS 15 and HKFRS 9 at 1 January 2018. Under the transition methods design, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 3.

Five Years Financial Summary

RESULTS

	Year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Revenue	<u>480,852</u>	<u>512,133</u>	<u>464,807</u>	<u>376,808</u>	<u>394,116</u>
Loss before income tax	<u>(53,005)</u>	<u>(20,631)</u>	<u>(41,967)</u>	<u>(25,673)</u>	<u>(17,693)</u>
Income tax expense	<u>(149)</u>	<u>(111)</u>	<u>(79)</u>	<u>-</u>	<u>(11)</u>
Loss for the year	<u>(53,154)</u>	<u>(20,742)</u>	<u>(42,046)</u>	<u>(25,673)</u>	<u>(17,704)</u>
Non-controlling interests	<u>463</u>	<u>(3,343)</u>	<u>(2,877)</u>	<u>(6,077)</u>	<u>(1,820)</u>

ASSETS AND LIABILITIES

	Year ended 31 December				
	2018 HK\$'000	2017 HK\$'000	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000
Total assets	<u>146,735</u>	<u>147,406</u>	<u>148,048</u>	<u>148,902</u>	<u>139,935</u>
Total liabilities	<u>(192,018)</u>	<u>(179,425)</u>	<u>(159,881)</u>	<u>(167,916)</u>	<u>(131,990)</u>
Non-controlling interests	<u>(45,283)</u> <u>(1,762)</u>	<u>(32,019)</u> <u>(1,287)</u>	<u>(11,833)</u> <u>(4,357)</u>	<u>(19,014)</u> <u>(7,650)</u>	<u>7,945)</u> <u>(14,357)</u>
Capital deficiency attributable to owners of the Company	<u>(47,045)</u>	<u>(33,306)</u>	<u>(16,190)</u>	<u>(26,664)</u>	<u>(6,412)</u>
Loss per share (HK cents)	<u>(0.32)</u>	<u>(0.11)</u>	<u>(0.24)</u>	<u>(0.12)</u>	<u>(0.10)</u>