CAA Resources Limited
優庫資源有限公司*

(Incorporated in the Cayman Islands with limited liability)

Stock Code： 02112

Annual Report 2018

* For identification only

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FINANCIAL AND OPERATING HIGHLIGHTS

	Notes	2018 USD'000	2017 USD'000	% Change
Result				
Revenue		**1,447,008**	1,104,616	+31.0
Profit attributable to owners of the Company		**2,534**	3,415	-25.8
Financial Position				
Trade receivables		**205,093**	194,476	+5.5
Total interest-bearing bank and other borrowings		**40,953**	56,024	-26.9
Trade payables		**1,953**	26,078	-92.5
Total assets		**302,617**	302,441	+0.1
Total current assets		**214,657**	254,584	-15.7
Total current liabilities		**146,487**	170,070	-13.9
Key Financial Ratios		**2018**	2017	Difference
Performance				
Gross profit margin		**1.27%**	1.5%	-15.3%
Net profit margin	1	**0.18%**	0.31%	-41.9%
Return on assets	2	**0.84%**	1.25%	-32.8%
Operating				
Inventory turnover days	3	**–**	–	–
Debtors' turnover days	4	**50**	47	+3
Creditors' turnover days	5	**4**	8	-4
Liquidity and Gearing				
Current ratio	6	**1.5**	1.5	–
Gearing ratio	7	**47.5%**	57.8%	-10.3 percentage points
Per share data				
Net assets per share (US cents)		**10.19**	7.18	
Basic earnings per share (US cents)		**0.17**	0.23	
Proposed final dividend (HK cents)		**–**	–	

FINANCIAL AND OPERATING HIGHLIGHTS

	2018	2017	Difference
Operating Statistics			
Number of crushing line owned and operated as at 31 December	**2**	2	–
Number of beneficiation line owned and operated as at 31 December	**5**	5	–
Actual ore mining volume (Kt) for the year ended 31 December	**124.6**	0	N.A.
Actual ore crushing volume (Mt) for the year ended 31 December	**0.04**	0	N.A.
Actual ore beneficiation volume (Mt) for the year ended 31 December	**0.03**	0	N.A.
Ore production volume (Kt) for the year ended 31 December	**30.0**	0	N.A.

Note:

1. Net profit margin is calculated by dividing profit for the year by revenue.

2. Return on assets represents the net profit attributable to the owners of the Company as percentage of the average of period-beginning balance and period-ending balance of total assets.

3. Inventory turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of inventories for the relevant year by cost of sales and then multiplied by the number of days in the relevant year.

4. Debtors' turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of trade receivables for the relevant year by revenue and then multiplied by the number of days in the relevant year.

5. Creditors' turnover days for the relevant year are calculated by dividing the average of the opening and closing balances of trade payables for the relevant year by cost of sales and then multiplied by the number of days in the relevant year.

6. Current ratio is the ratio of total current assets to total current liabilities.

7. Gearing ratio is calculated based on the Group's net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank loans and other loans and an amount due to the ultimate holding company, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the equity shareholders of the Company and non-controlling interest.

CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the Board of Directors of CAA Resources Limited, I am pleased to present the 2018 annual report to the Shareholders.

In 2018, uncertainties abounded in terms of international political and economic situations and industry conditions. There were a number of major issues in the macro international environment, such as the official implementation of Donald Trump's tax reform bill, the Federal Reserve and the European Central Bank further tightening their monetary policies, the US Federal Reserve's interest rate hike, and the escalation of trade disputes between China and the United States of America, all of which added uncertainties to the overall international trade environment.

The Group's management team has always given top priority to the enhancement of the shareholders' interests. The dedication and practicality of our staff at all levels, their efforts and their strict compliance with the Group's various business control measures contributed to the increase in effectiveness and the continuous optimization of our capacity structure. Looking back at the past year, the Platts 62% – Fe Iron Ore Index was volatile, fluctuating from USD75.2 per tonne at the beginning of the year to a high of USD79.95 per tonne in February, then falling to USD62.5 per tonne at one point, and then fluctuating upwards again until it closed at USD72.7 per tonne at the end of the year. It is therefore not commercially viable to resume the commercial mass production of iron ore under such volatile market conditions. In light of this, we stuck with the business strategy which we have adopted since 2015 to focus on the trading of iron ore business and other commodity trading business. During 2018, our revenue reached USD1,447.0 million. In light of iron ore price fluctuations and the costs of self-production, we continued to suspend our exploration activities and carried out a small amount of mining, crushing and beneficiation activities in the fourth quarter of 2018 only. We established stable working relationships with the suppliers, which effectively fixed the price and quantity of goods supplied. With an overall decrease in demand under current market conditions, however, our gross profit margin was under pressure and fell by 0.23 percentage points to 1.27%. During 2018, we recorded a gross profit of approximately USD18.4 million, which still represented an increase of approximately 11.5% as compared to 2017. This shows that we were still able to raise our gross profit by selling more at a lower profit in an operating environment highlighted by fierce pricing competition.

CHAIRMAN'S STATEMENT

The Company has extended the Ibam Mine's Mining Lease for two years from 15 December 2018 to 15 December 2020. For details, please refer to the announcement dated 25 January 2019. In addition, we strongly believe that a more diversified business portfolio is an important direction for the Group's future development. Therefore, we are constantly exploring projects with potential to open up opportunities for the long-term and sustainable development of the Group through cooperation in various viable forms. In mid-December 2018, an indirect wholly-owned subsidiary of the Company signed an agreement with a Malaysian company for the joint establishment of a joint venture company. The joint venture company will engage in the operation of a direct reduced iron plant. Moreover, in early January 2019, the Group signed a non-legally-binding memorandum of understanding with each of two Chinese companies, whose businesses are the provision of platform for hotel room booking and the provision of sharable mobile phone charging services respectively. For details, please refer to the announcements of the Company dated 14 December 2018 and 10 January 2019 respectively.

Looking ahead to 2019, being cautiously optimistic about the international economic and trading environment, we expect that China's dependence on iron ore imports will continue to be high in 2019. We will keep an eye on how the four major mines' plans to increase production will actually turn out and steadily expand our iron ore business and other commodity trading business. At the same time, we will continue to formulate our future business development plan in accordance with market environment conditions and our own needs, and actively look for the most appropriate investment plans to diversify our revenue channels.

Lastly, on behalf of all members of the Board, I would like to take this opportunity to convey our sincere gratitude to the management and our staff for their hard work and contribution. I would also like to thank our investors, bankers, and business partners for their unfailing trust and support all along.

Li Yang
Chairman and Chief Executive Officer

Hong Kong, 29 March 2019

MANAGEMENT DISCUSSION AND ANALYSIS

OVERVIEW OF BUSINESS DEVELOPMENT

The Company acts as an investment holding company, and its principal business activities are iron ore exploration, mining, crushing and beneficiation as well as sale of iron ore products and other commodities. There were no significant changes in the nature of the Group's principal activities during 2018 (the "Year"). The primary mining asset of the Group is the iron-ore reserves in Ibam Mine, which is located in the State of Pahang, Malaysia. In consideration of the fluctuation of iron ore price and low cost efficiency of self-production, the Group has focused on trading activities while primary activities in exploration, mining, crushing and beneficiation at the Ibam Mine was suspended in the first three quarters during the year. Limited mining and production activities were conducted in the last quarter of 2018. As such, mining volume and production volume recorded for the year were 124.6Kt and 30.0Kt respectively (2017: nil and nil respectively). The Company has extended the Ibam Mine's Mining Lease for two years from 15 December 2018 to 15 December 2020. For details, please refer to the announcement dated 25 January 2019.

The Group will try different methods to diversify the business portfolio. Strategies included but not limited to conducting suitable mergers and acquisitions of other businesses so that the scope of businesses becomes more diversified. This will bring opportunities to the sustainable development of the Group in the long term.

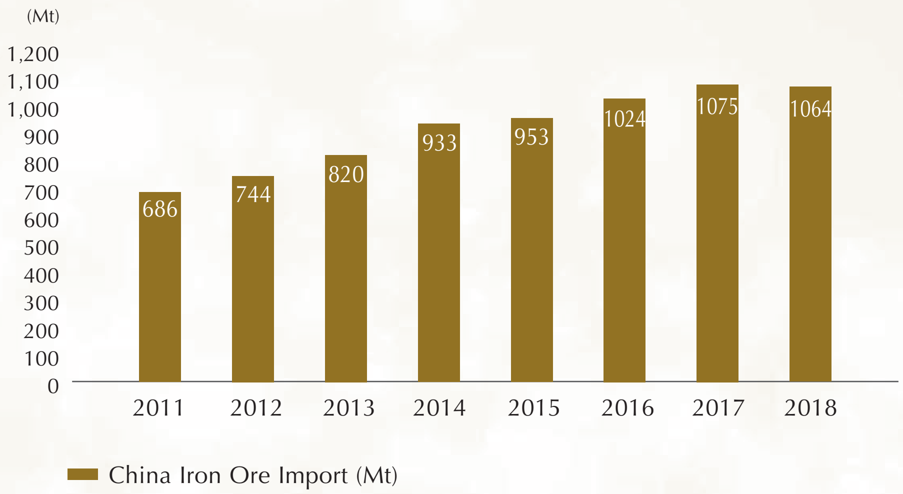
The Group clearly understand the advantage of diversification and did not stop searching for new business opportunities. On 14 December 2018, a Company's indirect wholly-owned subsidiary, entered into the joint venture agreement with the Affluent Oasis Sdn. Bhd., an independent entity established in Malaysia which was engaged in manufacturing of steel products, for establishing a joint venture company (the "JV Company"). The JV Company will be engaged in operating the direct reduced iron ("Direct Reduced Iron") plant ("Plant") which is situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia. For further details, please refer to the announcement dated 14 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

MARKET REVIEW AND OUTLOOK

Looking back at China's steel market in 2018, the main theme was still the restriction on production for the sake of environmental protection. In the first half of the year, the production volume of steel was notably rather low. However, in the second half of the year, due to the relaxation of environmental protection requirements and an increase in the profit margin of products, the production volume increased notably. Although product prices had dropped notably since the beginning of 2018, fortunately demand rose towards the end of 2018, so stock was sold at a very satisfactory pace. In the second half of 2018, the inventories of certain categories of steel products basically stayed at a low for recent years.

China Iron Ore Import



However, stepping into December 2018, China resumed its restriction on production for the sake of environmental protection. This indicates that there were more uncertainties in the macroeconomic environment and internal and external pressure increased notably in 2018. It also led to a relatively large change in China's economic policies. Currently, a number of indicators related to the property investment industry are quite clearly divergent. What is foreseeable in the future is that the growth rate of the area of newly commenced real estate units will decline while the growth rate of completed area will increase. Certainly, not only is the growth of newly commenced area currently at a high level, its absolute amount is also at a high level. As China's urbanization rate grows higher and higher, it is expected that the recurring demand for iron ore in the property development industry will not be that strong in the future.

MANAGEMENT DISCUSSION AND ANALYSIS

The issue of an aging population is gradually emerging in China now. The labour force as a percentage of the population is likely to see a relatively obvious decline in the future. As calculated based on current data, China could accomplish its urbanization goal in five to six years. In other words, in the property development industry, the demand for purchasing new housing units will weaken gradually. Since investments in land are a leading indicator, the negative growth in investments in land in 2018 necessarily corresponds to a decline in steel usage in the property development industry in 2019, and the increased steel usage in the property development industry in 2018 was actually a positive result of the growth in investments in land during 2016 to 2017. Therefore, it is estimated that steel usage in the property development industry will decrease by around 3% in 2019.

With reference to the Chinese market, investments in infrastructure are often used as a hedge against losses on investments in real estate. Now, investments in infrastructure have started to rebound from a low level and are expected to continue to grow in 2019. In addition, steel usage in the automotive industry has peaked, while the increase in steel usage in machinery and home appliances is relatively limited. Specifically, in 2018, the overall demand for steel plates was still satisfactory in the first half of the year, but there was a relatively noticeable decline in the second half of the year. It is possible that this downward trend will extend into the first half of 2019. In addition, the profit per tonne of steel fell sharply, which made high-grade ore and scrap steel less preferred for steel plants. When low profits or a loss is expected, the production volume of steel made with electric furnaces will also be affected.

The overall iron ore market was weak in 2018, but it is forecasted that the fundamental situation in relation to iron ore will undergo a relatively large change in 2019. Looking at the demand for and supply of iron ore from a global perspective, from 2010 to the end of 2017, the global production volume of crude steel increased by approximately 310 Mt, but if China is excluded as a factor, it merely increased by 69 Mt. If we further look at the increase in the production volume of iron ore, it was around 289 Mt. In other words, the increase in the production volume of iron ore was notably less than the increase in the production volume of crude steel.

It is expected that the overall fundamental situation in relation to iron ore in China will improve in 2019 compared to 2018. The question lies in the change in the grade requirements of iron ore. Earlier, due to the reforms on the supply side, steel plant profits notably improved, and so medium grade and medium-high grade products were noticeably more preferred. Now the grade requirements of iron ore basically changed from high grade at the beginning of 2018 to medium-high grade at the end of the year, and now it is basically in the process of further changing from medium-high grade to medium-low grade.

MANAGEMENT DISCUSSION AND ANALYSIS

The environmental protection and capacity reduction work in the iron and steel industry was approaching an end in 2018. When the pressure for downward movements in the economy mounts, the Chinese government will be forced to suitably align its environmental protection policies with its economic policies. Therefore, it is anticipated that the iron and steel production capacity utilization rates will remain high in 2019, and there may be relatively noticeable changes in Chinese government's policies. Moreover, starting from 2019, mergers and restructuring are likely to be the focus of the development of the iron and steel industry. The iron and steel industry's control over the supply side will be further enhanced, and the steel plants' bargaining power will also be stronger. As for demand, the property development industry's demand for steel may be gradually approaching its peak and it will only constitute a relatively limited driving force in the market. However, the growth rate of investments in infrastructure has picked up, and a peak of infrastructural steel usage may appear in the second half of 2019. Nevertheless, its stimulation effect is still subject to other conditions, such as the debt issues of local governments. As a result, the intensity of investments in infrastructure may be lower in the current cycle than in previous years. Products such as motor vehicles and home appliances are especially affected by the poor sales of commercial housing, and so it is anticipated that downstream demand for steel plates will not be high. Lastly, the machinery industry's demand for steel is not particularly promising and the Sino-US trade war will still have a certain impact on it.

It is estimated that the output of mines worldwide will increase by 39.3 Mt in 2019. The output of the four major mines will increase by only 15 Mt, which is still a relatively small amount. As a result, the growth rate of the supply of high-grade ore will slow down greatly in 2019. However, the demand for iron ore will see a notable increase in 2019, so the global supply and demand relationship in respect of iron ore should generally be better than in 2018. On the demand side, the surge in demand after Lunar New Year is anticipated to be earlier in 2019 than in 2018, but it is more likely to be an evenly distributed process, so there will not be a series of bursts as was the case in 2018. It is anticipated that the surge in demand will not be high in general.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS & OPERATIONS REVIEW

Project Ibam operation update

The Group's principal mining site is Project Ibam. Based on the "Independent Technical Report" (see Appendix IV of the Prospectus of the Company for full report) there is approximately 151 Mt of ore resource at a grade higher than or equal to 35%, with an average grade of 46.5% total iron, and it has a mine life expected to be more than 26 years as of 31 December 2012. The Group uses the open-pit mining method to simplify operations and reduce production costs. The Group produces iron ore products through a relatively low-cost process which includes ball-milling, magnetic separation process and dewatering. The method is environmentally friendly as it does not require chemical additives and reduces the amount of waste water produced.

The tenure of the Mining Lease with respect to Ibam Mine which had been expired on 15 December 2018, have been extended for another two years expiring on 15 December 2020 ("Extended Term"). Best endeavours have been made to procure the extension of the Mining Lease, and the Extended Term has been granted with the approval of the governmental authorities in Malaysia. For further details, please refer to the announcement of the Company dated 25 January 2019.

As at 31 December 2018, the Group owned 5 beneficiation lines and 2 crushing lines. During the Year, the Group focused on commodities trading and no mining and production activities were recorded in the first three quarters of 2018. The annual mining volume and production volume were 124.6 Kt and 30.0 Kt respectively due to the temporary suspension of mining activities in 2018 (2017: Nil and Nil respectively).

The following table indicates the mining volume and production volume of iron ore products produced from Ibam Mine:

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change
Mining Volume	**124.6 Kt**	0.0 Kt	N.A.
Production Volume	**30.0 Kt**	0.0 Kt	N.A.

Total mining volume and crushed of Ibam Mine for the year ended 31 December 2018 was 124,612 tonnes, as set out below:

Quarter ended	**Quarterly Ore mined and crushed (tonnes)**	**Average Fe Grade (%)**
31 March 2018	–	N.A.
30 June 2018	–	N.A.
30 September 2018	–	N.A.
31 December 2018	124,612	62.0

During the year under review, no exploration activities were carried out at the Ibam Mine.

MANAGEMENT DISCUSSION AND ANALYSIS

Breakdown of expenditures

The following is a breakdown disclosure in respect of the development and mining activities of Ibam Mine:

Expenditure incurred in respect of the mining activities during the year ended 31 December

	2018	2017
	USD'000	USD'000
Service fees to mining and processing contractors	**1,522**	–
Others	**186**	–
Total:	**1,708**	–

The above expenditures have been included in the cost of sales and are charged to the statement of profit on loss and other comprehensive income for the corresponding years.

No capital expenditure in respect of the development activities was recorded for the year ended 31 December 2018 (2017: Nil)

The high volatility of international iron ore price in 2018 rendered the full resumption of mining operation of Ibam Mine highly risky, as the Group would otherwise have to bear the risks of the further adjustment in iron ore prices. As such, the Group kept its focus on trading of mines instead of sale of self-produced mines.

Business Strategy

The volatility of international iron ore prices during the year was huge from as low as USD62.50 to the peak of USD79.95. The long-term price trend is uncertain, which renders the decision on resumption of production difficult. As such, the Group continued with its strategic focus on the trading of iron ores and other commodities. In addition, the Group has recently extended its product line in commodity trading to Eastern Siberia–Pacific Ocean oil (ESPO), so as to bring opportunities for the sustainable development of the Group in the long run. Diversification of income source has been the Group's major strategy to maximize Shareholder value.

On 14 December 2018, a Company's indirect wholly-owned subsidiary, entered into the joint venture agreement with the Affluent Oasis Sdn. Bhd., an independent entity established in Malaysia which was engaged in manufacturing of steel products, for establishing a joint venture company. The joint venture company will be engaged in operating the direct reduced iron plant which is situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia. For further details, please refer to the announcement dated 14 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

Further on 10 January 2019, the Company entered into a non-legally-binding memorandum of understanding (the "MOU") with 深圳閱程網絡科技股份有限公司 (Shenzhen Yuecheng Network Technology Company Limited) ("Yuecheng Technology") and 深圳市租電智能科技有限公司 (Shenzhen City Zudian Technology Company Limited) ("Zudian Technology") (collectively the "Target Companies") respectively, with respect to the Company's proposed equity investment in the Target Companies (the "Potential Project"). Further details, please refer to the announcement dated 10 January 2019.

Looking ahead, the Group expects to continue to focus on the trading of iron ore and other commodities. At the same time, we will look for assets with stable and healthy operating profits and fast-growing companies for acquisition or investment or develop new businesses by way of cooperation, endeavouring to diversify income sources and further enhancing our profitability.

Operating Results

During the year, the Group focused on the business of trading iron ore products and other commodities with limited mining business. Keen pricing competition lowered the gross profit margin by 0.23 percent point. Our aggressive pricing and trading terms helped to raise gross profit by 11.5% to USD18.4 million (2017: USD16.5 million).

In 2018, the Group recorded revenue of USD1,447.0 million (2017: USD1,104.6 million), representing an increase of USD342.4 million or 31.0% compared with the same period of the previous year. The sales volume of iron ore products decreased by 51.2% to approximately 6,501 Kt on dry basis (2017: approximately 13,320 Kt). The products sold had an average iron ore grade of 62.0% (2017: 62.0%). During the year, the average selling price of the Group's iron ore products on dry basis was USD70.8 per tonne (2017: USD74.5 per tonne). International iron ore prices fluctuated considerably, our gross profit margin has decreased to 1.3% (2017: 1.5%) due to price competition.

Profit for the year decreased by 26.5% to USD2.5 million from USD3.4 million, and earnings per share was 0.17 US cents (2017: 0.23 US cents) which was largely due to increase in finance costs which outweighted the decrease in selling and distribution expenses, and administrative expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

The sales analysis for the Group is as follows:

	For the year ended 31 December 2018	For the year ended 31 December 2017	Change
Sales Revenue	**USD1,447,008,000**	USD1,104,616,000	+31.0%
– Iron Ore	**USD460,434,000**	USD992,707,000	-53.6%
– Other Commodities note	**USD986,574,000**	USD111,909,000	+781.6%
Sales Volume (dry basis)			
– Iron Ore	**6,501,000 tonnes**	13,320,000 tonnes	-51.2%
– Other Commodities note	**387,000 tonnes**	17,000 tonnes	+2,176.5%
– Petroleum products	**5,458,000 barrels**	– barrels	N.A.
Gross Profit	**USD18,385,000**	USD16,527,000	+11.5%
Gross Profit Margin	**1.27%**	1.5%	-0.23 percentage points

Note: Nickel cathodes, copper cathodes, lead ore products, zinc ingots and aluminum during the year.

PRINCIPAL RISKS AND UNCERTAINTIES

During the year, the Company appointed an external firm of accountants to review and recommend the improvement of major risk areas of the Group. Certain risk factors which may affect the results and business operations of the Group are identified and summarised, together with the Group's actions and opinion towards such factors, are listed as below.

Risk of fluctuations in international commodity prices

The Group's iron ore production planning is highly driven by the international iron ore price which determines if the mining production is commercially feasible. The Group should reduce the iron ore production until and unless the selling price could cover the fixed costs of production and other costs borne by the Group such as inland transportation and storage. The fluctuation of international iron ore price may also affect the customers' demand on import iron ore, thus affecting the Group's sales. However, fluctuations in international commodity prices has lesser effect on the Group's trading activities. As such, the Group mitigated such risk by focusing more on the trading business of iron ore and other commodity.

Reliance on limited number of customers

The Group derived a significant portion of our revenue from a limited number of customers. For the year ended 31 December 2018, the five largest customers of the Group contributed 89.2% of total sales of the Group. The iron ore mining and trading business may be affected by volatility of international iron ore and commodity price and change in global economic environment. Change on demand or financial position of major customers may have adverse effect on Group's sales. As such, the Group will continue to expand the customer base to mitigate the risk.

MANAGEMENT DISCUSSION AND ANALYSIS

Insufficient banking facilities granted

The Group uses documentary letter of credit of payment for purchase. Purchase amount in iron ore and other commodity trading are enormous. Insufficient banking facilities granted by commercial banks would limit the growth of sales. Drastic rise of iron ore or commodity price may even force the Group to lower the purchase quantity and increase the Group's business risk. The Group will try to maintain a good relationship with the current bankers, and to seek for new source of banking facilities.

Staff risk of fraud or fraud

In the day-to-day business operations, employees may be involved in inappropriate or unethical behavior to cause the Group to suffer losses. Including fraud, theft of company property, receipt of rebates, unauthorized access to corporate confidential information and so on. The Group is of the opinion that the current headcount of the Group is small enough for the management to exercise close supervision on the staff, thereby reducing the risk of staff mistakes or improper behavior but will closely monitor the situation and take appropriate measures as and when necessary.

FINANCIAL REVIEW

PROFIT AND OTHER COMPREHENSIVE INCOME

Revenue

During the year, the Group's revenue reached approximately USD1,447.0 million, about 31.0% higher than that recorded in 2017, which was USD1,104.6 million. The increase in revenue was mainly due to the Group's aggressive marketing price strategy in trading of other commodities.

Cost of sales

During the year ended 31 December 2018, the Group's cost of sales reached approximately USD1,428.6 million, about 31.3% higher than approximately USD1,088.1 million recorded in 2017. The cost of sales comprised the purchase costs of iron ore products and other commodities from trading activities in the amount of USD1,426.9 million (2017: USD1,088.1 million).

Gross profit

During the year ended 31 December 2018, the Group's gross profit reached approximately USD18.4 million, about 11.5% higher than approximately USD16.5 million recorded in 2017. Gross profit grew substantially because the Group gave aggressive price offers to bloom sales quantities during the year. The average selling price of iron ore products decreased from USD74.5 per tonne to USD70.8 per tonne during the year.

Administrative Expenses

During the year ended 31 December 2018, the Group's administrative expenses reached approximately USD5.7 million, about 34.5% lower than USD8.7 million recorded in 2017. The decrease was mainly due to decrease in staff costs and business entertainment travelling, and miscellaneous expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

Other Expenses

During the year ended 31 December 2018, the Group's other expenses were approximately USD1.0 million, which was approximately as much as the other expenses for 2017 of USD1.0 million. During the year, decrease in bank charges in documentary letter of credit was recorded and the effect was set off by increase in other expenses.

Finance Costs

During the year ended 31 December 2018, the Group's finance costs reached approximately USD10.1 million, about 87.0% higher than USD5.4 million recorded in 2017. The increase was mainly due to interest expense incurred for the notes issued of USD5.9 million (2017: USD3.7 million) and interest expense incurred for bank loans of USD4.1 million (2017: USD1.7 million). No notional interest expense incurred for shareholder loan from Cosmo Field (the Controlling Shareholder) during the year. Please refer to note 6 to the Notes to Financial Statements for further details.

Income Tax Expenses

During the year, the Group's income tax expense reached approximately USD0.7 million, about 16.7% higher than the approximately USD0.6 million in the year of 2017. The effective tax rate was 22.4% in comparing with 14.9% of last year. The increase in effective tax rate was mainly due to the increase in non-deductible interest expenses pulled up the taxable profits.

Profit for the Year

Profit for the year ended 31 December 2018 decreased by 26.5%, from approximately USD3.4 million for the year ended 31 December 2017 to approximately USD2.5 million for the year ended 31 December 2018. The net profit margin decreased to 0.18% for the year ended 31 December 2018 from 0.31% for the year ended 31 December 2017. Decrease in profit for the year was mainly due to effect of increase in finance costs were higher than the contribution of increase in gross profit.

Total Comprehensive (Loss)/Income for the Year

Total comprehensive loss for the year ended 31 December 2018 was approximately USD4.9 million, while the Group recorded a total comprehensive income of approximately USD5.2 million for the year ended 31 December 2017. Total comprehensive loss for the year under review mainly arose from the fair value decrease of approximately USD7.1 million (net of tax) in respect of the equity investments designated as at fair value through other comprehensive income, foreign exchange loss arising from translation of foreign operations of approximately USD0.4 million (2017: foreign exchange gain arising from translation of foreign operations of approximately USD1.8 million) and decrease in profit for the year ended 31 December 2018 by approximately USD0.9 million comparing to the year ended 31 December 2017.

MANAGEMENT DISCUSSION AND ANALYSIS

SHAREHOLDER LOAN FROM CONTROLLING SHAREHOLDER TO COMPANY

As at 31 December 2018, the Group had interest-free loans from the ultimate holding company, Cosmo Field, of USD60,000,000 (note 22 to the Financial Statements). Cosmo Field granted unsecured interest-free loans of USD40,000,000 and USD20,000,000 to the Group pursuant to the shareholder loan agreements entered into between the Group and Cosmo Field dated 27 September 2016, 22 December 2016 and 27 September 2018, respectively, which were due on demand for repayment. The aforesaid shareholder loans are interest-free and do not require any security, and accordingly are fully exempted connected transactions of the Company under the Listing Rules.

The Company has been notified that a deed of release has been executed on 4 January 2018 with respect to 752,000,000 shares ("Charged Shares") of the Company which were previously charged by Cosmo Field in favour of the second priority lender (as set out in the announcement dated 29 December 2016). The Company has also been notified that, Cosmo Field has charged the Charged Shares in favour of another independent third party institution as second priority lender on 4 January 2018. As at the date of this annual report, Cosmo Field owns a total of 843,750,000 shares of the Company, representing 56.25% of the issued share capital of the Company. The Charged Shares represent approximately 50.13% of the issued share capital of the Company as at the date of this annual report. Cosmo Field is the Company's Controlling Shareholder (as defined in the Listing Rules) which is wholly owned by Mr. Li Yang who is a chairman and Controlling Shareholder of the Company.

PROPERTY, PLANT AND EQUIPMENT ("PPE")

The Group's PPE mainly consisted of machinery, mines properties and vehicles. As at 31 December 2018, the Group's PPE reached to approximately USD3.4 million, representing about 20.9% decrease from USD4.3 million as at 31 December 2017. The decrease was mainly due to the depreciation charge for the year.

MINING RIGHTS AND RESERVES

As at 31 December 2018, the Group's mining rights and reserves amounted to approximately USD12.7 million, representing a 1.6% decrease from approximately USD12.9 million as at 31 December 2017. The decrease was mainly due to foreign exchange alignment after offset by the amortization charged for the year.

FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

The unlisted equity investments represented the Group's investments in Fortune Union Financial Holdings (Asia Pacific) Limited ("Fortune Union") and Shenzhen Gongxinying Financial Information Service Co., Ltd. ("Shenzhen Gongxinying"). Fortune Union, whose indirect wholly owned subsidiaries are currently engaged in the equipment lease business, and has a certain market share in the micro credit market in Chongqing China. Shenzhen Gongxinying is a company incorporated in Shenzhen China engaged in internet finance. Unlisted equity investments in both Fortune Union and Shenzhen Gongxinying are stated at fair value. The Group does not intend to dispose of the investments in the near future.

MANAGEMENT DISCUSSION AND ANALYSIS

TRADE RECEIVABLES

The Group's trade receivables increased by 5.4%, from approximately USD194.5 million as at 31 December 2017 to approximately USD205.1 million as at 31 December 2018 which was mainly due to the lengthening of trade receivable turnover days. Trade receivable turnover days were approximately 50 days (2017: 47 days). The longer trade receivable turnover days was recorded due to the increase in settlement by tele-transfer of which longer credit period was granted.

Major customers were granted credit on open account basis or allowed to settle by documentary letter of credit. Overdue balances are reviewed regularly by senior management, if any. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2018, all trade receivables of the Group, based on the sales recognition date, were aged within six months and all of the trade receivables were neither past due nor impaired.

PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

As at 31 December 2018, the Group's prepayments, deposits and other receivables amounted to approximately USD9.4 million (31 December 2017: approximately USD50.9 million). The significant decrease was mainly due to the other receivable in respect of disposal of property, plant and equipment had been recovered during the year (31 December 2017: approximately USD6.4 million), and the prepayments made to certain commodities suppliers as prepayments or deposits to secure a more competitive purchase price and secured supply for commodities trading activities had been crystalized and did not recur as at the year end date. During the years of 2018 and 2017, these suppliers were top ten suppliers of the Group.

TRADE PAYABLES

Trade payables mainly consisted of payables to suppliers for purchase of iron ore products and other commodities for trading activities. The Group's trade payables amounted to approximately USD2.0 million as at 31 December 2018 and approximately USD26.1 million as at 31 December 2017. The significant decrease was due to a sharp decrease in commodities trading in December 2018 and most of the trade payables were settled before the year end date.

NOTES

The amount represented subscription notes issued on 20 September 2016 and 19 October 2017 for the remaining amounts of USD19.4 million and USD17.9 million (2017: USD20.9 million and USD19.8 million as non-current liability) respectively. The notes were recorded at the amortised cost using the effective-interest method after deducting of issuance costs at the issue date. The notes issued on 20 September 2016 were reclassified as current liability as at 31 December 2018 and 31 December 2017. The notes issued on 19 October 2017 were classified as current liability as at 31 December 2018 and non-current liability as at 31 December 2017. For further details, please refer to the announcement dated 20 September 2016 and 19 October 2017 respectively.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Current Assets Position

The Group's net current assets decreased during the year, from net current assets of approximately USD84.5 million as at 31 December 2017 to net current assets of approximately USD68.2 million as at 31 December 2018. The decrease was primarily attributable to decrease in prepayments, deposits and other receivables for the amount of approximately USD41.5 million, decrease in cash and cash equivalents for the amount of approximately USD1.9 million, increase in notes as current liabilities for approximately USD16.4 million. Decrease in interest-bearing and other borrowings for approximately USD15.1 million and significant decrease in trade payables for the amount of approximately USD24.1 million during the year formed the offsetting items against the current assets.

Borrowings

As at 31 December 2018, the Group's borrowings mainly included: (i) secured bank loans of approximately USD41.0 million with an annual interest rate ranging from 9.44% to 9.59%; (ii) hire purchase arrangements for motor vehicles of USD7,000 with an annual interest rate of 2.47%; (iii) notes amounted USD37.3 million which comprised the Note 1 of USD19.4 million and the Note 2 of USD17.9 million issued on 20 September 2016 and 19 October 2017 respectively, details of which can be referred to the announcements dated 20 September 2016 and 19 October 2017 respectively.

As of 31 December 2018, the Company also owed shareholder loans of USD60.0 million (2017: USD60.0 million) from Cosmo Field (the Controlling Shareholder) which were interest-free and unsecured, the details of which can be referred to section "shareholder loan from controlling shareholder to company".

Disclosure pursuant to Rule 13.21 of the Listing Rules

On 20 September 2016, the Company as issuer, entered into a subscription agreement with an independent third party institution (the "Noteholder 1") pursuant to which the Company agrees to issue and the Noteholder 1 agrees to subscribe for the subscription notes ("Note 1") in the principal amount of HK$164,865,750 with a final redemption date falling 18 months after the date of issue which was partially repaid in the amount of approximately USD2,000,000 on 29 March 2018 while the repayment date was extended to 19 May 2018. Noteholder 1 and the Company further agreed the repayment date was extended to 30 June 2019. Pursuant to the terms of the Note 1, it will be an event of default if, among others, (i) Mr. Li Yang ("Mr. Li", the chairman and Controlling Shareholder of the Company) fails to remain the Controlling Shareholder (as defined in the Listing Rules) of the Company; or (ii) Mr. Li ceases to be the chairman of the Company. Upon and at any time after the occurrence of an event of default, the Subscriber may give notice to the Company that one or more of the Note 1 shall become immediately due and repayable with all accrued interests.

MANAGEMENT DISCUSSION AND ANALYSIS

Further, on 19 October 2017, the Company entered into a subscription agreement with, amongst others, an independent third party institution (the "Noteholder 2") pursuant to which the Company agrees to issue and the Subscriber agrees to subscribe for the notes ("Note 2") in the principal amount of not more than US$20,000,000 with a maturity date of two years from the date of issuance. Pursuant to the terms of the Note 2, it will be an event of default in respect of the Note 2 if, amongst others, so long as any part of the Note 2 is outstanding and without the prior consent of the Subscriber, (i) Mr. Li Yang ("Mr. Li", the chairman and Controlling Shareholder (as defined under the Listing Rules) of the Company) fails to remain as the single largest shareholder of the Company and holds 55.00% of the issued share capital of the Company; (ii) sells, transfers or creates any further encumbrance over his equity interests in the Company; or (iii) ceases to act as the chairman, the chief executive officer and the executive director of the Company.

Cosmo Field, Mr. Li Yang and his father have provided guarantee with respect to the Note 1 and Cosmo Field and Mr. Li Yang have provided guarantee with respect of the Note 2 for which the Group is not required to provide any consideration. The aforesaid guarantees are fully exempted connected transactions.

Other Investments and Business Development

Apart from the existing business at Ibam Mine and commodities trading business, the Company has been seeking opportunities to further diversify the scope of business.

Strategies included but not limited to conducting suitable mergers and acquisitions of other businesses so that the scope of businesses becomes more diversified. This will bring opportunities to the sustainable development of the Group in the long term. During the year, the Company took a solid step under the "Belt and Road" initiative proposed by China. As disclosed in the announcement dated 8 November 2017, the Group and an independent entity established in Malaysia which is engaged in hi-tech development and manufacturing industries entered into a memorandum of understanding. It was proposed that the Group would commence full-scale cooperation with the counterparty in relation to a smart transportation project in Malaysia. For further details, please refer to the announcement of the Company dated 8 November 2017. Since no concrete agreement was achieved after several rounds of negotiations, the Company had decided not to proceed further on the negotiation.

MANAGEMENT DISCUSSION AND ANALYSIS

The Group fully appreciates the advantage of diversification and has been searching for new business opportunities. On 14 December 2018, a Company's indirect wholly-owned subsidiary, Best Sparkle, entered into the joint venture agreement with Affluent Oasis Sdn. Bhd., an independent entity established in Malaysia which was engaged in manufacturing of steel products, for establishing a joint venture company (the "JV Company"). The JV Company will be engaged in operating the direct reduced iron ("Direct Reduced Iron") plant ("Plant") which is situated in Mukim of Teluk Kalung, District of Kemaman, State of Terengganu, Malaysia. Pursuant to the joint venture agreement, our Group will subscribe for 33.33% issued shares of the JV Company at a consideration of US$50,000,000 which is to be satisfied by contributing 9.12% of the issued shares of Pacific Mining ("Partial Disposal"), an indirectly wholly-owned subsidiary of the Company, and the JV Partner will subscribe for 66.67% issued shares of the JV Company at a consideration of US$100,000,000, of which US$20,000,000 is to be satisfied by cash while US$80,000,000 is to be satisfied by contributing the ownership of certain buildings and machinery. The Partial Disposal did not result in a loss of control by the Group in Pacific Mining which remains as a subsidiary of the Group after the Partial Disposal. After the Partial Disposal, the Group's ownership interest in Pacific Mining has decreased from 100% to 90.88%. For further details, please refer to the announcement dated 14 December 2018.

LIQUIDITY AND CAPITAL RESOURCES

The total equity of the Group as at 31 December 2018 was approximately USD152.8 million (31 December 2017: USD107.7 million). The Group generally finances its operation with internally generated cash flow, interest-bearing bank and other borrowings, and interest-free and security-free shareholder loans from our Controlling Shareholder as set out in section "shareholder loan from controlling shareholder to company". Primary uses of funds during the year included payment of iron ore and other commodities purchased and operating expenses. As at 31 December 2018, current assets of approximately USD214.7 million primarily comprised USD205.1 million of trade receivables, USD9.4 million of prepayments, deposits and other receivables, and USD0.2 million of cash and cash equivalents. Current liabilities of approximately USD146.5 million mainly comprised USD2.0 million of trade payables, USD62.4 million of other payables and accruals, USD41.0 million of interest-bearing bank and other borrowings, USD37.3 million of notes payable and USD3.9 million of tax payable. Current ratio, being total current assets to total current liabilities was 1.5 as at 31 December 2018 (2017: 1.5). The liquidity position indicated that the Group has sufficient financial resources to finance its business and to meet its working capital requirements subject to the recoverability of trade receivables.

As at 31 December 2018, the Group had certain interest-bearing bank and other borrowings of USD41.0 million in total (2017: USD56.0 million). The bank and other borrowings were mainly used to finance the issuance of letter of credit and working capital of the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

Cash and Cash Equivalents

Cash and cash equivalents of the Group in 2018 decreased by approximately USD1.9 million compared to 2017.

Detailed cash flow analysis is as follows:

	For the year ended 31 December	
	2018	2017
	USD'000	USD'000
Cash and cash equivalents in the consolidated statement of cash flows at beginning of year	**2,085**	74,922
Net cash from/(used in) operating activities	**18,950**	(127,409)
Net cash flows from investing activities	**8,692**	6,110
Net cash flows (used in)/from financing activities	**(29,543)**	48,509
Net decrease in cash and cash equivalents	**(1,901)**	(72,790)
Effect of foreign exchange rate changes, net	**(1)**	(47)
Cash and cash equivalents at end of year	**183**	2,085

Net Cash Flows from/(used in) Operating Activities

The Group's net cash flows in operating activities changed from approximately USD127.4 million outflow for the year ended 31 December 2017 to inflow of approximately USD19.0 million for the year ended 31 December 2018. It primarily included the profit before tax of USD3.3 million and the outflow of cash was mainly contributed by the increase in trade receivables of approximately USD10.6 million, decrease in trade payables of approximately USD24.1 million and offset by the decrease in prepayments, deposits and other receivables of approximately USD41.5 million.

Net Cash Flows from Investing Activities

The Group's net cash flows from investing activities increased by 42.6%, from inflow of approximately USD6.1 million for the year ended 31 December 2017 to inflow of approximately USD8.7 million for the year ended 31 December 2018. It primarily included decrease in pledged bank deposit for approximately USD7.1 million and interest received for approximately USD1.6 million.

MANAGEMENT DISCUSSION AND ANALYSIS

Net Cash Flows (used in)/from Financing Activities

The Group's net cash flows in financing activities decreased by 160.9%, from inflow of approximately USD48.5 million for the year ended 31 December 2017 to outflow of approximately USD29.5 million for the year ended 31 December 2018. The decrease is primarily due to no cash inflows from Cosmo Field (the Company's Controlling Shareholder) and proceeds from issue of notes were recorded during the year (2017: net inflows of USD10 million and USD20 million respectively). Besides, net decrease in bank borrowing of USD15.1 million (2017: net increase of USD22.3 million) and increase in payment of interest from USD3.7 million for the year ended 31 December 2017 to USD10.6 million for the year ended 31 December 2018 contributed the sharp decrease in cash flow of this class of activities.

CAPITAL STRUCTURE

The Group is currently funding its capital expenditure through internal funds generated from its operations, bank borrowings, notes issued and loan from Cosmo Field. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. Net debt is defined as interest-bearing bank and other borrowings and an amount due to Cosmo Field, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the equity shareholders of the Company and non-controlling interest.

The Group's gearing ratio as at 31 December 2018 was 47.5% (31 December 2017: 57.8%).

The Group continued to conduct its operational business mainly in USD. The Group did not arrange any forward currency contracts for hedging purposes.

CONTINGENT LIABILITIES

As at 31 December 2018, neither the Group nor the Company had any significant contingent liabilities.

FOREIGN CURRENCY RISK

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group also exposes to currency risk in respect of its equity investments designated as at fair value through other comprehensive income which are denominated in a currency other than the relevant units' functional currencies.

MANAGEMENT DISCUSSION AND ANALYSIS

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in RM and RMB exchange rates, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	USD'000
2018		
If the US dollar weakens against RM	**5**	**0**
If the US dollar strengthens against RM	**(5)**	**0**
If the US dollar weakens against RMB	**5**	**463**
If the US dollar strengthens against RMB	**(5)**	**(463)**
2017		
If the US dollar weakens against RM	5	269
If the US dollar strengthens against RM	(5)	(269)
If the US dollar weakens against RMB	5	490
If the US dollar strengthens against RMB	(5)	(490)

INTEREST RATE RISK

The Group's income and operating cash flows were not substantially affected by changes in market interest rates. The Group has no significant interest-bearing assets, except for cash and bank balances. The Group had no significant interest rate exposure arising from all of its interest-bearing loans since the interest rates were fixed. In addition, the Group has not used any interest rate swap to hedge against interest rate risk.

CHARGE ON ASSETS

Save for the vehicle registrations cards and trade receivables pledged for bank and other loans as disclosed in note 23 to the Financial Statements, the Group did not have any pledges on its assets as at 31 December 2018.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND EMOLUMENT POLICIES

The Group values its human resources and recognizes the importance of attracting and retaining qualified staff for its continuing success. As at 31 December 2018, the Group had 49 employees (2017: 46). For the year ended 31 December 2018, total staff cost including Directors' emolument amounted to approximately USD1.8 million (2017: USD2.1 million).

The Group's remuneration policies are in line with prevailing market practices and are determined on the basis of the performance and experience of the individual. The Group has constantly been reviewing the staff remuneration package to ensure it is competitive in the relevant industries.

ACQUISITIONS AND INVESTMENTS IN PROGRESS

For details of significant acquisitions and investments of the Group during 2018, please refer to the section "Other Investments and Business Development".

OTHER INFORMATION

RESOURCE AND RESERVES OF IBAM MINE UNDER JORC CODE AS AT 31 DECEMBER 2018

Mineral resources of the Ibam Mine for ore with iron grade greater than or equal to 35% as at 31 December 2018 ***(Note)*****:**

Classification	Quantity (Mt)	Fe Grade (%)
Measured	108	46.7
Indicated	–	–
Inferred	42	46.4
Total	150	46.6

Ore reserves of the Ibam Mine for ore with iron grade greater than or equal to 35% as at 31 December 2018:

Classification	Quantity (Mt)	Fe Grade (%)
Proved	–	–
Probable	102	44.7

Note: The figures were calculated by the resource and reserves as at 31 December 2013 under the JORC Code (confirmed by Geos Mining Minerals Consultants, Australia which is a specialist independent geological and mineral exploration consultant) less the mining volume since then.

All assumptions and technical parameters set out in the technical report of Geos Mining (the "Independent Technical Adviser") which is prepared under JORC Code as shown in the prospectus of the Company dated 20 June 2013 with respect to the Ibam Mine have not been materially changed and continued to apply to the above disclosed data.

MANAGEMENT DISCUSSION AND ANALYSIS

EXPLORATION, DEVELOPMENT AND MINING PRODUCTION ACTIVITIES

During the year ended 31 December 2018, no exploration and development activities were carried out. The Group did not incur any investment in equipment upgrade during the year ended 31 December 2018.

During the year, mining volume and production volume were recorded 124.6Kt and 30.0Kt respectively. Mining activities was temporarily suspended during the first three quarters of 2018 and was limited resumed in the last quarter of 2018 (2017: nil and nil respectively).

CONTRACTUAL OBLIGATIONS

Save as disclosed in notes 33 and 34 to the Notes to Financial Statements, as at 31 December 2018, the Group had no material contractual obligations to disclose (31 December 2017: nil).

CAPITAL EXPENDITURE

During the year, the Group's total capital expenditure was USD2,000 (31 December 2017: USD6,000) mainly for acquisition of computers.

SIGNIFICANT ACQUISITIONS, DISPOSALS AND INVESTMENTS

The Group's acquisitions, disposals and investments under planning included (but are not limited to) the projects described in the section "Overview of business development" above. Save as disclosed herein, the Company does not have any future plan for significant acquisition, disposal and investment during the year and as at the date of this report.

RELATED PARTY TRANSACTIONS

Details of the related party transactions as stated in note 35 to the Notes to Financial Statements comprise: (i) an interest-free loans from Cosmo Field, the controlling shareholder of the Company, for the principal amount of USD60 million as at 31 December 2018, all of which are interest-free, security free and fully exempted connected transactions; (ii) compensation of key management personnel of the Group for the amount of USD0.8 million (2017: USD1.1 million); (iii) guarantees provided by Mr. Li Yang (chairman and controlling shareholder), his father and Cosmo Field.

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

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

FINAL DIVIDEND

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

CORPORATE GOVERNANCE REPORT

The Board of Directors is committed to maintaining appropriate corporate governance practices to enhance the accountability and transparency of the Company in order to protect Shareholders' interests and to ensure that the Company complies with the latest statutory requirements and professional standards.

The Company has complied with the code provisions set out in CG Code for the year ended 31 December 2018 except for the deviation from CG Code provision A.2.1 in respect of the roles of chairman and Chief Executive Officer of the Company which is further discussed in the section of "Chairman and Chief Executive Officer" in this corporate governance report.

MODEL CODE FOR DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as its code of conduct for dealing in securities by the Directors. Having made specific enquiry to all the Directors, all the Directors have confirmed that they had complied with the required standards set out in the Model Code for the year ended 31 December 2018.

BOARD OF DIRECTORS

The Board is responsible for leadership and control of the Company and oversees the Group's businesses, strategic decisions and performance. The Board has delegated to the Chief Executive Officer, and through him, to the senior management the authority and responsibility for the day-to-day management and operation of the Group.

All Directors have carried out their duties in good faith, in compliance with applicable laws and regulations and in the interests of the Company and its Shareholders at all times.

DELEGATION OF MANAGEMENT FUNCTIONS

The Board reserves for its decision all major matters of the Company, including: approval and monitoring of all policy matters, overall strategies and budgets, internal control and risk management systems, material transactions (in particular those that may involve conflict of interests), financial information, appointment of directors and other significant financial and operational matters.

All Directors have full and timely access to all relevant information as well as the advice and services of the company secretary, with a view to ensuring that Board procedures and all applicable laws and regulations are followed. Each Director is able to seek independent professional advice in appropriate circumstances at the Company's expense, upon making request to the Board.

The day-to-day management, administration and operation of the Company are delegated to the Chief Executive Officer and the senior management. The delegated functions and responsibilities are periodically reviewed. Approval has to be obtained from the Board prior to any significant transactions entered into by the aforesaid officers.

CORPORATE GOVERNANCE REPORT

As at 31 December 2018 and up to the date of this corporate governance report, the Board comprised four executive Directors and three independent non-executive Directors.

Executive Directors
Mr. Li Yang *(Chairman and Chief Executive Officer)*
Ms. Li Xiaolan
Mr. Wang Er
Ms. Xu Mijia

Independent Non-Executive Directors
Mr. Leung Yiu Cho
Dr. Li Zhongquan
Dr. Wang Ling

The biographical details of the Directors and the relationship among the members of the Board are set out in the section of "Profiles of Directors and Senior Management" on pages 49 to 53 of this annual report. Ms. Li Xiaolan is the younger sister of Mr. Li Yang's father.

In compliance with Rules 3.10(1) and (2) and 3.10A of the Listing Rules, the Company has appointed three independent non-executive Directors, who have represented at least one-third of the Board. Mr. Leung Yiu Cho, being one of the independent non-executive Directors possesses the appropriate professional qualifications or accounting or related financial management expertise. The Board considers that all the independent non-executive Directors have appropriate and sufficient business, legal and/or finance experience and qualifications to carry out their duties so as to protect the interests of the Shareholders of the Company.

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence as required under Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors to be independent.

Each of the independent non-executive Directors has taken up the role as an independent non-executive Director for an initial term of 3 years and is subject to retirement and re-election in accordance with the Articles of Association.

CORPORATE GOVERNANCE FUNCTIONS

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

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

TRAINING OF THE DIRECTORS

During the year under review, all the Directors have taken continuous professional development trainings in order to refresh their knowledge and skills and have provided their records to the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under CG Code A.2.1 under Appendix 14 to the Listing Rules, the roles of chairman and Chief Executive Officer should be separate and should not be performed by the same individual. The positions of chairman and Chief Executive Officer of the Company are both currently carried on by Mr. Li Yang. The Board considers that the structure currently operated by the Company does not undermine the balance of power and authority between the Board of Directors and the management.

The Board members have considerable experience and qualities which they bring to the Company and the Board, of which Mr. Li Yang can take advantage in fulfilling his duties, and the management is not impaired. Mr. Li Yang has strong client relationships and has the full backing from the Board of Directors and senior management of the Company in fulfilling his obligations as chairman and Chief Executive Officer. The Board believes that having the same person performing the roles of both chairman and Chief Executive Officer can provide the Group with strong and consistent leadership and that, operating in this manner allows for more effective and efficient overall strategic planning of the Group. Further, the decisions of the Board are made collectively by way of voting and therefore the chairman of the Board should not be able to monopolize the voting result.

CHANGE OF DIRECTOR

There was not any change of director during the year under review.

CROSS-DIRECTORSHIP

The Company confirmed that none of the Directors of the Company held cross-directorship in other companies or bodies during the year and up to the date of this report.

ROTATION OF DIRECTORS

In accordance with articles of the Company's articles of association, Mr. Li Yang, Mr. Wang Er and Dr. Wang Ling will retire by rotation and, being eligible, will offer themselves for re- election at the forthcoming annual general meeting. The independent non-executive directors are appointed for periods of one to three years.

MEETINGS OF THE BOARD

Notices of regular Board meetings are given to all the Directors in accordance with the Articles of Association. Schedules and agenda of each meeting are made available to the Directors in advance. All the Directors are given an opportunity to include matters in the agenda for regular Board meetings. For other Board and committee meetings, notices are given within reasonable times in advance. Minutes of all Board meetings and committee meetings are kept by the company secretary and open for the Directors' inspection. Draft and final version of minutes are circulated to the Directors for their comment and record within a reasonable time after the Board meeting is held.

CORPORATE GOVERNANCE REPORT

The attendances at the Board, respective Board committees meetings and the AGM held either in person or through other electronic means of communication for the year ended 31 December 2018 are as follows:

	Board	Audit Committee	Nomination Committee	Remuneration Committee	AGM/EGM
Executive Directors					
Mr. Li Yang	5/5	N.A.	2/2	N.A.	2/2
Ms. Li Xiaolan	5/5	N.A.	N.A.	2/2	2/2
Mr. Wang Er	5/5	N.A.	N.A.	N.A.	2/2
Ms. Xu Mijia	5/5	N.A.	N.A.	N.A.	2/2
Independent non-executive Directors					
Mr. Leung Yiu Cho	5/5	5/5	N.A.	N.A.	2/2
Dr. Li Zhongquan	4/5	5/5	2/2	2/2	2/2
Dr. Wang Ling	5/5	5/5	2/2	2/2	2/2

Note: number of meeting attended is shown as numerator and total number of meetings a director eligible to attend and held is shown as denominator.

The Company confirmed that all independent non-executive Directors attended the general meetings either in person or by telephone conference if he was not able to attend the meeting physically.

In addition to the disclosure made above, the Board held a meeting on 29 March 2019 to approve the annual results and other relevant matters of the Group. All Directors were present in person or through other electronic means of communication in the meeting.

COMMITTEES OF THE BOARD

The Board has established the Audit Committee, the Nomination Committee and the Remuneration Committee to oversee particular aspects of the affairs of the Company. Each of these committees is set up with specific written terms of reference in compliance with the CG Code. Each committee is delegated with authorities and duties within its terms of reference. The terms of reference of the Board committees are posted on the Company's website and the Stock Exchange's website and are available to Shareholders upon request.

The majority of the members of each Board committee are independent non-executive Directors and the list of the chairman and members of each Board committee is set out under "Corporate Information" on page 180.

Board committees are provided with sufficient resources to discharge their duties and, upon reasonable request, are able to seek independent professional advice in appropriate circumstances at the Company's expense.

CORPORATE GOVERNANCE REPORT

Audit Committee

The Company established an audit committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The primary duties of the Audit Committee include ensuring that an effective financial reporting and internal control system is in place and compliance of the Listing Rules controlling the completeness of the Company's financial statements, selecting external auditor and assessing their independence and qualifications, and ensuring the effective communication between our external auditor. The Audit Committee comprises three Independent non-executive Directors, namely, Mr. Leung Yiu Cho (chairman of the Audit Committee), Dr. Wang Ling and Dr. Li Zhongquan.

The Audit Committee are to assist the Board by providing an independent view of the effectiveness of the financial process, internal control and risk management system of the Group, overseeing the audit process and performing other duties and responsibilities assigned by the Board. The Audit Committee held two meetings during the year and up to the date of this report to review interim and annual financial results and reports and significant issues on the financial reporting and compliance procedures, internal control and risk management systems, scope of work and appointment of external auditor.

The Audit Committee also met the external auditor twice without the presence of the executive Directors during the year and up to the date of this report.

The terms of reference for the Audit Committee have been revised in accordance with the Listing Rules and published on the Stock Exchange website on 1 January 2019.

The Company's and the Group's audited financial statements for the year ended 31 December 2018 have been reviewed by the Audit Committee, who was of the opinion that these statements complied with the applicable accounting standards, the Listing Rules and the legal requirements, and that adequate disclosures had been made. For the year ended 31 December 2018, five committee meetings were held and the attendance records of individual members are set out below:

Number of meetings	**Name of Directors attended/held**
Mr. Leung Yiu Cho	5/5
Dr. Wang Ling	5/5
Dr. Li Zhongquan	5/5

CORPORATE GOVERNANCE REPORT

Remuneration Committee

The Company established a remuneration committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The Remuneration Committee comprises two independent non-executive Directors, namely, Dr. Wang Ling (chairman of the Remuneration Committee), Dr. Li Zhongquan and one executive Director, namely Ms. Li Xiaolan.

The duties of the Remuneration Committee mainly include making recommendations on and approving the remuneration policy and structure and remuneration packages of all Directors and the senior management. The Remuneration Committee is also responsible for establishing transparent procedures for developing such remuneration policy and structure to ensure that no Director or any of his/her associates will participate in deciding his/her own remuneration, which remuneration will be determined by reference to the performance of the individual and the Company as well as market practice and conditions. The Remuneration Committee would make recommendations to the Board on the Company's policy and structure for all Directors' and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy.

For the year ended 31 December 2018, two committee meetings were held and the attendance records of individual members are set out below:

Number of meetings	**Name of Directors attended/held**
Dr. Wang Ling	2/2
Dr. Li Zhongquan	2/2
Ms. Li Xiaolan	2/2

It is the Company's policy that the remuneration package of each Director and senior management shall be determined by reference to, inter alia, their duties, responsibilities, experience and qualifications.

Details of remuneration payable to the Directors and senior management by band are set out in note 8 to the Notes to Financial Statements of this annual report.

Nomination Committee

The Company established a nomination committee pursuant to a resolution of our Directors passed at a Board meeting on 12 April 2013 with effect upon the Listing. The Nomination Committee comprises one executive Director, namely, Mr. Li Yang (chairman of the Nomination Committee), and two independent non-executive Directors, namely Dr. Wang Ling and Dr. Li Zhongquan. The primary duties of the Nomination Committee include identifying suitable candidates for the Directors and making recommendations to the Board, assessing the structure and composition of the Board, preparing, making recommendations to and supervising the execution of the nominating policy of the Company.

CORPORATE GOVERNANCE REPORT

For the year ended 31 December 2018, two committee meetings were held and the attendance records of individual members are set out below:

Number of meetings	Name of Directors attended/held
Mr. Li Yang	2/2
Dr. Wang Ling	2/2
Dr. Li Zhongquan	2/2

The Company has received from each of the independent non-executive Directors an annual confirmation of their independence required under Rule 3.13 of the Listing Rules. The Company considered all the independent non-executive Directors to be independent. Besides, the Nomination Committee reviewed the appointment of each Director prior to that Director seeking re-election at the forthcoming AGM and was pleased to recommend the re-election of three eligible Directors to the Board.

The Company has adopted new policy on nomination of Directors to ensure diversity of perspectives of Directors on 1 January 2019. The new policy on nomination requires explicitly that in assessing the suitability of a proposed candidate, merit and potential contributions that such candidate could bring to the Board should take reference on the Company's Board Diversity Policy. Such assessment should include but not limited to gender, age, cultural and educational background, ethnicity, professional experience, independence, skills, knowledge and length of service.

EXTERNAL AUDITOR AND AUDITOR'S REMUNERATION

For the year ended 31 December 2018, the fees paid and payable to Graham H. Y. Chan & Co. in respect of services rendered to the Group amounted to approximately USD241,000, of which a sum of USD228,000 was paid for auditing services and of USD13,000 for non-auditing services.

DIRECTORS' AND AUDITOR'S RESPONSIBILITIES FOR THE FINANCIAL STATEMENTS

The Directors acknowledge their responsibility for the preparation of the consolidated financial statements which give a true and fair view of the state of affairs of the Company and the Group and of the results and cash flows for the Group for the year ended 31 December 2018.

In preparing the consolidated financial statements, supported by the finance department of the Group, the Directors have:

(i) reviewed the adoption of all applicable IFRSs;

(ii) selected suitable accounting policies and applied them on a consistent basis;

(iii) made judgments and estimates that are prudent, fair and reasonable; and

(iv) prepared the consolidated financial statements on a going concern basis.

CORPORATE GOVERNANCE REPORT

In preparing the consolidated financial statements for the year ended 31 December 2018, the Board has received sufficient explanation and information from the management, which enabled the Board to make an informed assessment of the consolidated financial statements and other information before approval. The Directors continue to adopt the going concern approach in preparing the consolidated financial statements and are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board recognizes its responsibility for maintaining an adequate and sound enterprise risk management and internal control system and through the Audit Committee and, if necessary, an external firm of qualified accountants to provide internal control services, conducts reviews on the effectiveness of these systems at least annually, covering material controls, including financial, operational, compliance and strategic risk control functions. The Board understands that such systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

During the year, a Malaysian legal adviser was appointed to provide advice to the Board and the designated compliance officers on an ongoing basis in respect of all relevant Malaysian laws and regulations, including changes to such laws and regulations, which may affect the Group's operations in Malaysia.

During the year the Board, through the Audit Committee, conducted review of both design and implementation effectiveness of the risk management and internal control systems of the Group, covering all material controls, including financial, operational and compliance controls, with a view to ensuring that resources, staff qualifications and experience, training programmes and budget of the Group's accounting, internal audit and financial reporting functions are adequate. In this respect, the Audit Committee communicates any material issues identified to the Board.

During the year, the audit committee of the Company appointed Corporate Governance Professionals Limited ("CGPL"), an external firm of qualified accountants to:

- assist in identifying and assessing the risks of the Group through a series of workshops and interviews; and

- independently perform internal control review and assess effectiveness of the Group's risk management and internal control systems.

Our Enterprise Risk Management Framework

The Group established its enterprise risk management framework in 2016. While the Board has the overall responsibility to ensure that sound and effective internal controls are maintained, management is responsible for designing and implementing an internal control system to manage all kinds of risks faced by the Group.

CORPORATE GOVERNANCE REPORT

Through the risk identification and assessment processes, risks are identified, assessed, prioritized and allocated treatments. Our risk management framework follows the COSO Enterprise Risk Management – Integrated Framework, which allows the Board and management to manage the risks of the Group effectively. The Board receives regular reports through the Audit Committee that oversights risk management and internal audit functions.

Principal Risks

In the year of 2018, no material principal risks were identified by CGPL except for the following two areas of concern were considered to be of medium to high risk:

Risk of reducing business due to economic downturn or political environment

The Company's main business is the mining and sales of iron ore, and its customers are mainly steel plants. Steel production is closely related to the economic and political environment, so the Company's business will also be affected by changes in the economic cycle or political environment. Once the global economy is deteriorating or political factors are uncertain, steel demand may be reduced, which indirectly affects the Company's sales.

On the other hand, China has entered the overall economic downturn cycle in recent years, and the production capacity of products including steel has been surplus. Although China has tried to solve the problem through the "One Belt, One Road" and other plans, the effect is doubtful in the short term.

Actions taken by the Company

To resolve the operational risk as stated above, the Company has developed a well-established written policy to document the internal control procedures. The management will continue to monitor the daily operations. The Company would conduct regular internal control audits and risk assessments by engaging external internal control consultants.

For strategic risk arising from changing global economic and political environment, the management would keep their eyes on any relevant progress or changes in global and economic environment, and maintains a prudent development strategy, actively promotes diversified business development and diversifies income sources.

CORPORATE GOVERNANCE REPORT

Our Risk Control Mechanism

The Group adopts a "three-layer" corporate governance structure with operational management and controls performed by operations management, coupled with risk management monitoring carried out by the finance and compliance team and independent internal audit outsourced to and conducted by CGPL. The Group maintains a risk register to keep track of all identified major risks of the Group. The risk register provides the Board, the Audit Committee, and management with a profile of its major risks and records management's action taken to mitigate the relevant risks. Each risk is evaluated at least annually based on its likelihood of occurrence and potential impact upon the Group. The risk register is updated by management as the risk owners with addition of new risks and/or removal of existing risks, if applicable, at least annually, after the annual risk evaluation has been performed. This review process can ensure that the Group proactively manages the risks faced by it in the sense that all risk related parties have access to the risk register and are aware of and alert to those risks in their area of responsibility so that they can take follow-up action in an efficient manner.

Our risk management activities are performed by management on an ongoing process. The effectiveness of our risk management framework will be evaluated at least annually, and periodic management meeting is held to update the progress of risk monitoring efforts. Management is committed to ensure that risk management forms part of the daily business operation processes in order to align risk management with corporate goals in an effective manner.

There is currently no internal audit function within the Group. The directors have reviewed the need for an internal audit function and are of the view that in light of the size, nature and complexity of the business of the Group, it would be more cost effective to appoint external independent professionals to perform internal audit function for the Group in order to meet its needs. Nevertheless, the directors will continue to review at least annually the need for an internal audit function.

The Company will continue to engage external independent professionals to review the Group's system of internal controls and risk management annually and further enhance the Group's internal control and risk management systems as appropriate.

The Audit Committee has reviewed the internal control review and the enterprise risks assessment reports. Based on the controls in place as well as the ongoing improvements taken by management, is satisfied that there are effective and adequate internal controls in the Group. The Board is of the view that the Company has complied with the CG Code for the year ended 31 December 2018.

Disclosure of Inside Information

The Group has put in place a set of policy for the disclosure of inside information which sets out the procedures and internal controls for the handling and dissemination of inside information in a timely manner and in compliance with the SFO. The policy and its effectiveness are subject to review on a regular basis.

CORPORATE GOVERNANCE REPORT

COMPANY SECRETARY

Mr. Chu Lok Fung Barry, who has been appointed as the company secretary of the Company since 12 April 2013, has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

SHAREHOLDERS' RIGHTS

The Board and the management of the Group endeavored to ensure all the Shareholders are treated equally and have their deserved rights. The Board has established the Shareholders' communication policy to maintain an open and effective communication with the Shareholders and to update the Shareholders on relevant information on the Group's business in a timely manner.

To safeguard Shareholder interests and rights, a separate resolution is proposed for each substantially separate issue at Shareholder meetings, including the re-election of individual directors.

All resolutions put forward at Shareholder meetings will be voted on by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and of the Stock Exchange after each Shareholder meeting.

Any Shareholder may appoint a proxy or representative to attend the general meeting, and they are entitled to exercise the same voting rights in the meeting.

The notice of AGM is distributed to all Shareholders at least 21 clear days and 20 clear business days prior to the AGM and the accompanying circular also sets out details of each proposed resolution and other relevant information as required under the Listing Rules. The chairman of the AGM exercises his power under the Company's Articles of Association to put each proposed resolution to the vote by way of a poll.

Procedures for convening an Extraordinary General Meeting and Putting Forward Proposals at General Meetings by Shareholders.

Pursuant to Article 58 of the Company's Articles of Association, an extraordinary general meeting shall be called by the Board on the written requisition of any one or more Shareholders of the Company, provided that such Shareholder(s) held at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company. Such meeting shall be called for the transaction of any business specified in the written requisition to the Board or the Secretary of the Company; and shall be held within two months after the deposit of such requisition. If within twenty-one days of such deposit the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

There are no statutory provisions granting the right to Shareholders to put forward or move new resolutions at general meetings under the Companies Law or the Articles of Association of the Company. Shareholders who wish to move a resolution may request the Company to convene a general meeting following the procedures set out in the preceding paragraph.

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

To embrace best corporate governance principles and practice, the Group, as a listed company, emphasizes the importance of maintaining good communication with the Shareholders and investors, so as to increase the Company's transparency and undertaking by the Shareholders. The AGM provides a useful forum for Shareholders to exchange views with the Board, external auditor and the chairman of each of the Board committees attend the general meeting and are pleased to answer Shareholders' enquiries. Furthermore, to foster two-way communication amongst the Company, its Shareholders and potential investors, and to update them abreast of the latest industry updates, corporate communications and the Group's announcements and business development in a timely manner, the Company has a formal channel to respond to enquiries from Shareholders and the public. In the event that a Shareholder wishes to put forward a proposal to the Board, he/she may put forth his/her enquiry in writing to the Hong Kong office of the Company at Suite 5602, 56/F., The Center, 99 Queen's Road Central, Hong Kong and the Company will act on the subject matter accordingly. In addition, the Company is committed to maximizing the use of its website at www.caa-resources.com and the website of the Stock Exchange at www.hkexnews.hk as a channel to provide updated information in a timely manner and strengthen the communication with both the Shareholders and the public.

DIVIDEND POLICY

The Company approved and adopted a dividend policy (the "Dividend Policy") effective from 1 January 2019.

The Company endeavours to strike a balance between maintaining sufficient working capital, developing and ensuring smooth running of the business of the Group, and sustainable returns to the shareholders of the Company ("Shareholders").

Under the Dividend Policy, the Company does not propose a pre-determined dividend payout ratio. Dividends may be declared as interim dividends, special dividends or proposed by the Board as final dividend from time to time. Dividends would be paid out of the Company's profits and other distributable reserves subject to the respective laws, rules and regulations of the respective jurisdictions governing the Group companies domiciled and the companies' own constitutions.

According to the Dividend Policy, in deciding whether to propose a dividend and in determining the dividend amount, the Board shall take into account, inter alia, the following factors:

a) the Group's actual and expected financial and business needs;

b) the Group's expected working capital requirements and future expansion plans;

c) the level of the Group's debts to equity ratio, return on equity ratio and the relevant financial covenant;

d) the restrictions on payments of dividends that may be imposed by the Group's lenders or other third parties, if any;

e) the Group's liquidity position;

CORPORATE GOVERNANCE REPORT

f) the general economic conditions, business cycle of the Group's business and other internal and external factors that may have impact on the business or financial performance and position of the Group;

g) retained earnings and distributable reserves of the Company; and

h) other factors that the Board deems relevant and appropriate.

The declaration, payment, and amount of final dividends will be subject to the Board's discretion and the approval of the Shareholders.

The Board shall continue to review the Dividend Policy and reserves the right in its sole and absolute discretion to update, amend and/or modify the Dividend Policy at any time the Board thinks fit.

The Dividend Policy shall in no way constitute a legally binding commitment by the Company that dividends will be paid in any particular amount and/or in no way obligate the Company to declare a dividend at any time or from time to time.

PROCEDURES FOR DIRECTING SHAREHOLDERS' ENQUIRIES TO THE BOARD

Shareholders may at any time send their enquiries and concerns to the Board in writing to the Hong Kong office of the Company whose contact details are as follows:

Suite 5602, 56/F., The Center, 99 Queen's Road Central, Hong Kong

CHANGE OF AUDITOR IN LAST THREE YEARS

On 28 February 2018, in the shareholders meeting, the termination of the engagement of Ernst & Young as auditor of the Company and the appointment of Graham H. Y. Chan & Co. as the auditor of the Company were duly approved. For details, please refer to the circular dated 6 February 2018 and the poll results of the extraordinary general meeting held on Wednesday, 28 February 2018. Save as disclosed above, there was no change of auditor during the past three years.

CHANGES TO CONSTITUTIONAL DOCUMENTS

There was no change in the Company's constitutional documents for the year ended 31 December 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ABOUT THE ESG REPORT

The Company is pleased to present its third Environmental, Social and Governance ("ESG") Report (the "Report"). This Report herein focuses on providing an overview of the environmental and social aspects of the Group, and outlines how we seek to continually improve our operational strategy in regard to our environment and society in order to cope with the global standards of sustainability.

During the process of our preparation of this ESG Report, the Group has conducted thorough review and evaluation of the existing policies and practices. The ESG Report covers the period which is consistent with the financial year of our Annual Report of 2018. Unless otherwise stated, this Report covers the data of all operating units of the Group.

Report Scope and Boundary

The ESG Report is prepared in accordance with the selected global, local and industrial standards and best practices, which include, but not limited to, the ESG Reporting Guide as set out in Appendix 27 to the Listing Rules and any applicable accounting and financial reporting standards in Hong Kong.

In order to comply with the disclosure requirement of the "comply or explain" provision, the ESG Report has outlined our overall performance in respect of environmental protection, human resources, operating practice and community involvement for the financial year of 2018.

This ESG Report has been approved by the Board of the Company on 29 March 2019.

Information and Feedbacks

For details in relation to our financial performance during the financial year of 2018, please visit our website or Annual Report.

Your feedback and comments are important to us. Please send us an email addressed to enquiry@caamine.com if you have any queries on the ESG Report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

OUR STAKEHOLDERS

As stakeholders play a crucial role in sustaining the success of our business, we make use of various communication channels to understand and engage our stakeholders. The probable points of concern of the stakeholders and the way of our communication and responses are listed below.

Stakeholders	Possible points of concern	Communication and responses
HKEx	Compliance with listing rules, timely and accurate announcements.	Meetings, training, workshops, programs, website updates and announcements.
Government	Compliance with laws and regulations, preventing tax evasion, and social welfare.	Interaction and visits, government inspections, tax returns and other information.
Investors	Corporate governance system, business strategies and performance, investment returns.	Organizing briefing sessions and seminars, interviews, shareholders' meetings, issue of financial reports or operation reports for investors, media and analysis.
Media & Public	Corporate governance, environmental protection, human right.	Issue of newsletters on the Company's website.
Suppliers	Payment schedule, and stable demand.	Performance of site visits.
Customers	Service quality, service delivery schedule, reasonable prices, service value, and personal data protection.	After-sales services.
Employees	Rights and benefits of employee compensation, training and development, work hours, and working environment.	Conducting union activities, training, interviews with employees, internal memos, and employee suggestion boxes.
Community	Community environment, employment opportunities, community development, and social welfare.	Developing community activities, employee voluntary activities, and community welfare subsidies and donations.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

ENVIRONMENTAL

Overview

Our primary business operations include iron ore mining, crushing and beneficiation as well as the sale of iron products in the form of iron ore concentrates and iron ore fines. We sell iron ore products primarily to steel manufacturers and/or their representative purchase agents in China.

In light of the uncertainties of world economies and fluctuating demand for iron ores, we focused on commodities trading and no mining and production activities were recorded in the first three quarters of 2018. Limited mining and production activities were carried out in the last quarter of 2018. As such, the annual mining volume and production volume were 124.6 Kt and 30.0 Kt respectively. Due to the temporary suspension of mining activities in the first three quarters of 2018, the total amounts of emissions of air pollutants and greenhouse gas, use of resources, discharges into water and land, and generation of hazardous and non-hazardous waste were immaterial.

We comply with all relevant laws and regulations that are related to environmental protection in Hong Kong, China and Malaysia that have a significant impact on us, and are actively updating our "Green Policies" in order to incorporate the idea of sustainable development into our Group's day-to-day operations. We strive to manage our physical operations in an efficient and sustainable manner. We continually look for opportunities to improve our performance and corporate strategies to mitigate the adverse impact on the environment caused by our operations.

Compliance and Grievance

During the financial year of 2018, we comply with all relevant environmental laws and regulations that have a significant impact on us, including but not limited to, the Environmental Protection Law in China, and the Environmental Quality Act 1974 of Malaysia. No confirmed non-compliance incidents or grievances were noted by us in relation to environmental issues.

Emissions

The major types of pollutants created during open cut mining, blasting and scale of the mining operation are nitrogen oxides, carbon monoxide and dust. However, since we focused on commodities trading and no mining and production activities were recorded in the first three quarters of 2018, the total amount of air emissions is minimal and immaterial, and thus, no data was recorded during the financial year of 2018.

The greenhouse gas ("GHG") emissions resulted mainly from four types of activities of the Group, including, but not limited to, vehicle uses with direct emissions, air-conditioning of the operating units with direct emissions, employees travelling by air with indirect emissions, and mining processes with direct emissions.

Motor vehicles

We own several cars for travelling of our management and picking up our guests or clients. However, transportation is not a material part of our business. Furthermore, all vehicles are under regular maintenance check to ensure fuel consumption efficiency and road safety with a view to keeping carbon dioxide emission from the vehicles at the minimum level.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Air-conditioning

Employees are encouraged to set offices' air-conditioners at a comfortable temperature and all unused air-conditioners are switched off. The Group has also put reminders at prominent places for employees' awareness of electricity consumption and energy conservation during office hours of business operations.

Travelling by air

In the financial year of 2018, the total number of business air trips by employees was 129 times (2017: 126 times) and the total CO2 emissions were 19,601.00 kg (2017: 18,280.20 kg). Employees are only required to travel by air, when necessary, and, in most of the time, we arranged telephone or video conference calls rather than face-to-face meetings in order to reduce the carbon emissions that are indirectly caused by air travel.

The process of mining

Even though mining and production activities were not recorded in the first three quarters, we often fulfill our responsibility to protect, restore and treat the environment by implementing measures to reduce energy consumption and GHG emissions. The measures that we have taken are listed as follows:

1. The iron ore business minimizes the mining loss rate and dilution rate and maximizes the processing recovery rate by optimizing its mining methods and processing techniques, strengthening the management of on-site operations, and establishing strict technical standards for mining. Technologies are utilized to improve the extraction rate and recovery rate of mining, thus creating less impact on the environment.

2. In the case of happening of an accident, at the aftermath of the accident, we would investigate and analyze the cause, propose and implement remedial measures, and assess the effectiveness and impacts of the remedial measures on the environment with an aim to prevent any further impact the accident would cause to the environment, and also to avoid the occurrence of the accident.

3. We use diesel to run all equipment. Diesel consumption has been reduced by using diesel-saving equipment. Equipment is required to be turned off when not in use so as to avoid unnecessary emission of pollutants into the air.

4. Water pool is used for the process of iron ore cleaning. It produces very little or almost no diesel fumes or dust, and thus, less pollutants are emitted into the air.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Use of Resources

We always endeavor to promote sustainability and aim to cease our resources wastage to provoke detrimental harm to the environment. Various measures have been implemented to attain the goal of efficient use of resources. These measures have been effectively communicated to all levels of staff, ensuring that all employees understand clearly the importance of conserving energy and making full use of the available resources during operations.

Since we focused on commodities trading for the financial year of 2018, the consumption of water, electricity and other natural resources is minimal; the measures taken to minimize the usage of resources are stated below.

Water Usage

Water is the key component for the on-site beneficiation process. It is convenient for the Group to source ample amount of natural water from local streams, natural runoff and pumping from a retention pond in the Ibam Mine area. As for the other offices of the Group, due to the nature of the operations, water consumption mainly arises from the daily use of water by the employees at the offices during working hours, and the domestic sewage is directly discharged into municipal sewage pipelines.

As the water bills for offices in Hong Kong and Chengdu, China were included in the rent, while natural water was obtained from local streams in Malaysia, thus we are unable to collect and disclose the relevant data.

Electricity and Energy Usage

Our Hong Kong office's electricity consumption for the financial year of 2018 was approximately at 13,599 kWh (2017: 15,242 kWh), and the total emission of CO_2 was 10,743.21 kg (2017: 12,041.18 kg), mainly arising from the daily office operations. The following measures are adopted and implemented by us to preserve energy and reduce electricity usage:

- Reduce power consumption by using power-saving facilities;
- Turn off unused lighting and appliances to reduce energy consumption;
- Turn off air conditioning and lights after office hours and in idle rooms; and
- Regularly maintain office equipment to ensure efficient operation of office equipment such as air conditioners, computers, lights, and refrigerators, etc.

Only the units of usage of electricity of the Group's Hong Kong office are able to be collected, while in Chengdu, China and Malaysia, the electricity fees were already included in the rent, and thus, we are unable to collect and disclose the relevant data of electricity usage in Chengdu, China and Malaysia.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Generation of Waste

The solid waste generated mainly arises from the Group's day-to-day operations, including, but not limited to, office-use paper, office waste and waste generated from the mining of iron ores. In order to alleviate the pressure on landfills and promote environmental friendliness within the Group, we have implemented various measures to encourage recycling of office supplies and other materials, thus eliminating the over-consumption of unnecessary materials.

In the financial year of 2018, we complied with all relevant laws and regulations that have a significant impact on us, including, but not limited to, Waste Disposal Ordinance in Hong Kong, Solid Waste and Public Cleansing Management Act 2007 in Malaysia and the Law of China on Prevention and Control of Environmental Pollution by Solid Waste in China. No confirmed material non-compliance incidents or grievances were noted by us in relation to environmental issues.

Furthermore, no chemical or clinical hazardous waste was generated and we did not generate large amount of non-hazardous waste during our daily operations, and therefore, the data of nonhazardous waste was not included in the calculation. Moreover, no packing materials were used for metal products, and thus, no data in this respect is available.

Reduction of printing and paper usage

We require our staff to make full use of office paper before its disposal. Various measures have been incorporated into our business operations, such as adopting the use of environmental -friendly paper and promoting the use of double-sided printing. For any single-sided printing, the relevant paper should be reused under the circumstances that no confidential information was printed on one side of the paper. Moreover, used up ink cartridges were properly recycled so as to avoid the generation of hazardous waste. We will continue to leverage the use of technology for communication with our employees and customers; moving towards an operation of paperless system.

Reduction of waste generated from mining of ore

In order to minimize our impact on the environment and manage the potential risks relating to environmental protection matters, we will conduct reclamation/rehabilitation works, and also recycle and reuse waste water at the ore processing lines and tailing ponds. We occupy part of the land when conducting mining activity. After the activity has been completed, we will restore the land and vegetation.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Data on Greenhouse Gas Emission

	Unit		Carbon emission (CO_2) in kg	
	2018	2017	**2018**	2017
Scope 2				
Electricity consumption	**13,599 kWh**	15,242 kWh	**10,743.21**	12,041.18
Scope 3				
Business trips of employees by air	**129 times**	126 times	**19,601.00**	18,280.20
Total emission of GHG			**30,344.21**	30,321.38

SOCIAL

Employment and Labour Practices

Employee engagement has been our core strategy for enhancing productivity and workforce stability. As such, we focus on building a safe and enjoyable working environment for all employees. We have complied with all laws and regulations in relation to employment that have a significant impact on us, including but not limited to, Hong Kong Employment Ordinance, Employment Act 1955 in Malaysia and Labour Law of China.

Compliance and Grievance

During the financial year of 2018, no confirmed non-compliance incidents or grievances were noted by the Company in relation to employment aspects.

Employment

We strictly comply with the requirements of the Employment Ordinance, the Minimum Wage Ordinance, the Employees' Compensation Ordinance as well as other relevant laws and regulations which cover employment protection and benefits. We have a set of personnel policy and procedures that set out our standard internal procedures relating to recruitment and promotion, working hours, holidays, equal opportunities, compensation, dismissal, diversity of origins, antidiscrimination and other human resources treatments and benefits of our employees, etc., to provide a set of standardized and adequate guideline on work practice for our employees.

Equal opportunity

All employees are entitled to equal opportunity in terms of treatment and promotion. In practice, employees can file a complaint or accusation against senior management if he or she is unpleased with how the senior management has treated him or her. The human resources department is responsible for handling these cases. All employees are treated equally and respectfully. It is our aim to let employees work in a friendly and peaceful environment.

In addition, all of our board members are selected based on their professional experience, skills and knowledge irrespective of their gender, age, cultural and educational background and ethnicity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Anti-discrimination policy

The human resources department is responsible for conducting investigations over reported incidents in regard to discrimination or abuse. If a report of discrimination or abuse is confirmed, we will terminate the relevant employee's employment contract and seek for legal actions against the offender depending on the seriousness of the incident.

Attract and retain talents

Our remuneration policies are in line with prevailing market practices and are determined on the basis of the competency, qualifications and experience of individual employees. Management has been constantly reviewing the staff remuneration package and employees' promotion opportunities. Adjustments will be made, usually annually, to conform to the market standard in order to retain talents and ensure the offer is competitive as compared to our peers in the industry.

We emphasize the unity and harmony within the working environment. Over the years, our human resources department has contributed numerous efforts in organizing activities to strengthen the bonding of employees within our family. Team building activities and gatherings are organized regularly so as to let our employees maintain their work-life balance, and also help build unity and a harmonious working environment.

Welfare and benefits

Employees are entitled to all holidays as stated on the Employment Act, apart from that, employees are also entitled to generous annual leave package, including 1 to 3 days' marriage leave and 1 to 3 days' funeral leave.

Moreover, we continue to uphold the government laws and provide comprehensive support to pregnant female employees. We have a "Support Policy" to show support to all pregnant employees and to ensure that their original job is available to them upon their return from maternity leave. Furthermore, during their pregnancy period, we prohibit any pregnant employees to perform heavy lifting assignments so as to ensure that both the mother and the baby are safe at CAA Resources.

Health and Safety

We comply with the relevant laws and regulations regarding industrial safety, hygiene and health, and other caring arrangements for employees that have a significant impact on us, including, but not limited to, Occupational Safety and Health Ordinance in Hong Kong and Occupational Safety and Health Act 1994 in Malaysia. Apart from employees' compensation insurance, we provide other fringe benefits to our employees, such as medical cover. Our business operations do not involve any high-risk work activities that could lead to serious industrial events or occupational health problems. No case of injuries was reported during the financial year of 2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

In addition, we have implemented the following policies to create and maintain a good, comfortable and healthy work environment for our employees:

- Keep all emergency exits in the workplace unobstructed;
- Provide sufficient lights at workplace;
- Prohibit smoking in the workplace; and
- Conduct regular safety inspections and fire drill training.

Development and Training

We believe that investing in employees through training will help promote job satisfaction, work motivation and staff loyalty. Different types of training were provided to employees to make sure that all staff can have updated information and enough knowledge and skills to provide quality services to our customers. The Company provided on-the-job training to our employees, and all new joiners received induction training on their first day of employment.

Moreover, employees are encouraged to attend external training seminars and courses that can help them gain updated knowledge with the fast changing business world taken into account. The training seminars and courses include, but not limited to, updates on the Listing Rules, corporate governance, changes and development of relevant laws and regulations, as well as the introduction of financial technologies and strategic investment opportunities. As such, we strive to refresh our employees' knowledge and let them maintain sustainable professional development.

Labour standards

We are committed to complying with the Employment Ordinance in Hong Kong, the PRC Employment Contract Law, the PRC Labour Law, and the Employment Regulations 1957 in Malaysia. Every act of engagement is subject to a stringent internal review process that involves a well-defined monitoring procedure designed to verify a candidate's personal information in order to avoid misrepresentation and any form of child labour.

The practice of forced and child labour is strictly prohibited. If the management discovers that there has been any illegal practice of child or forced labour, we will immediately terminate the employment contract of the relevant executives. During the financial year of 2018, all employees are over the age of 18, and have been properly employed in accordance with the requirements of all applicable laws and regulations.

OPERATING PRACTICES

Supply Chain Management

We aim to provide comprehensive solutions that meet customers' needs and establish a comprehensive vertical supply chain management system through resources integration and supply management. In addition to improving cost competitiveness, we also value suppliers' development capability in a sustainable manner. We focus on close cooperation with suppliers to reduce the environmental impact of products being manufactured in the production process, and ensure the quality of services provided to our customers.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the financial year of 2018, we purchased from over 13 suppliers (2017: 15 suppliers) which are widely spread all over the world. Our suppliers are mainly located in Hong Kong and Singapore. It is our wish to collaborate with our suppliers in innovation development and application, participation in production process enhancement for the continuous optimization of supply chain capabilities as well as fulfilment of our responsibilities in social and environmental protection.

Product Responsibility

We strictly comply with laws and regulations with regard to product responsibility in Hong Kong, Malaysia and PRC that have a significant impact on us, including, but not limited to, the Consumer Protection Law of China, China's Law of Tort, the Trade Description Ordinance and the Sale of Goods Ordinance in Hong Kong, and the Consumer Protection Act 1999 in Malaysia. There were no major breaches of the Trade Description Ordinance, nor were we sued for copyright infringement in the financial year of 2018. Also, no products have been returned to us by customers due to health and safety issue.

In order to ensure the quality of our products, we maintain long-term relationship with those qualified suppliers with good reputation. Quality is based on the content of the mineral; and the Group obtains laboratory test results from its suppliers so as to ensure that all products are with high quality.

Anti-corruption

We clearly understand that financial crime can have significant consequences upon our customers and us. Moreover, the community and the economies in which we operate can also be greatly impacted. Therefore, we are highly committed to participating in industry-wide efforts to address the problem of corruption.

We maintain and implement our own anti-money laundering, counter-terrorist financing, antibribery, anti-corruption and anti-fraud practices and procedures. We do not support, nor do we tolerate, any corruption practice and the payment or receipt of bribes for any purpose. We have set out a clear policy to guide our employees' behaviour in this area, and have complied with all relevant laws and regulations that have a significant impact on us, including, but not limited to, Criminal Law of China, Anti-Money Laundering Law of China, the Prevention of Bribery Ordinance in Hong Kong and the Malaysian Anti-Corruption Commission Act 2009. During the financial year of 2018, there was no report of any corruption or bribery behavior within the Group.

Community Investment

We deeply understand the importance of giving back to the society. Therefore, we encourage our employees to take part in community services so as to contribute to a more sustainable and harmonious society.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

DIRECTORS AND SENIOR MANAGEMENT

Executive Directors

Mr. Li Yang, aged 31, was appointed as Director on 25 April 2012 and was redesignated as an executive Director, the chairman and Chief Executive Officer of the Company on 12 April 2013. Mr. Li is the director of Capture Bukit Besi since September 2013, the director of Keen Wise Asia Investment Limited since 27 July 2015, the director of Shenzhen Shihua Information Technology Limited since 25 November 2015 and currently the Group's resident key management executive in Malaysia, responsible for the day-to- day business management and supervision of mining production. He is also the chairman of the Nomination Committee.

Mr. Li first joined our Group in December 2009 as our resident representative for our mines in Malaysia. In February 2010, he was appointed as the director of Capture Advance, our principal operating entity in Malaysia, and also the director of Capture Advantage and director of Best Sparkle Development Ltd. since June 2011. He had since represented our Group in the liaisons with clients and various Malaysian governmental authorities. Apart from managing our business operation in Malaysia, Mr. Li also played a vital role in the Group's business development in the PRC, and was a key figure in procuring our Group's entering into the framework agreement with one of our major customers. Mr. Li was closely involved in our daily mining operation and convened regular meetings to discuss with our resident Directors and the senior management teams, who would provide their professional technical advice. Mr. Li is also responsible for the strategic planning of the Group's ongoing business expansions. Mr. Li is the sole director of Cosmo Field which is the beneficial owner of 843,750,000 Shares of the Company, representing 56.25% of the issued share capital of the Company.

Mr. Li graduated from the College of Business of Eastern New Mexico University in the United States in 2009 with a major degree in business administration. He is the son of Mr. Li Dongming, the founder of the Group, and nephew of Ms. Li Xiaolan.

Ms. Li Xiaolan, aged 54, was appointed as an executive Director and the deputy general manager of the Company on 12 April 2013. She joined our Group in March 2008 and had been appointed as the director of Capture Advantage, Best Sparkle Development Ltd. and 3W Development Limited since August 2010, November 2010 and February 2014 respectively. Ms. Li is currently responsible for the financial management of the Group, and her duty includes enhancing internal control of our financial system, supervising the daily operation of our finance department and controlling the allocation of internal resources. In addition, she is also responsible for reviewing and approving the financials and feasibility of new projects.

Ms. Li has approximately 19 years of experience in accounting. Previously she had been the finance director of Tongxing Group Mining Company (同興集團礦業公司) between January 1997 and October 2003, and the finance director of Chengdu Hande between November 2003 and August 2007.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Ms. Li obtained a diploma in industrial enterprises operation and management from Sichuan Radio and Television University (四川廣播電視大學) in the PRC in 1986, and her bachelor's degree in accounting from Sichuan University (四川大學) in the PRC in 1992. Ms. Li is the younger sister of Mr. Li Dongming, the founder of the Group, and aunt of Mr. Li Yang.

Mr. Wang Er, aged 62, was appointed as an executive Director and the production supervisor of our Company on 12 April 2013 and was re-elected as an executive Director on 19 June 2015. He had also been appointed as the director of Capture Advance, Pacific Mining and Capture Advantage since February 2010, May 2011 and June 2011 respectively. Mr. Wang has approximately 34 years of experience in the mining industry. Mainly responsible for the daily operation and production of the Group's mines, he is the key on-site person-in-charge of Project Ibam as well as the resident supervisor at the mine site for overall production management and testing of iron ore grading.

Mr. Wang first joined our Group in March 2008 as the resident representative in Malaysia and took part in a number of field trips in search for suitable mining projects in Malaysia. He was also actively involved in the establishment of the Group's warehouse in Kuantan.

Prior to joining the Group, Mr. Wang served as the general manager of Chengdu Hande between November 2003 and December 2006, and was mainly responsible for the preliminary screening of potential investment opportunities in the mining sector. Between March 1998 and October 2003, Mr. Wang was the general manager of Sichuan Guandi Mine (四川官地鐵礦), serving as the key on-site person-in-charge of the mining project, and responsible for the construction of mining production lines and arranging staff for the mining operation. Before that, Mr. Wang had also successively served the positions of technician, engineer and deputy manager in the non-ferrous metal department at Sichuan Enterprises Mining Company (四川鄉鎮企業礦業公司).

Mr. Wang graduated from Henan Jiaozuo Mining Institute (河南焦作礦業學院) in the PRC with a major degree in mineral processing in 1998.

Ms. Xu Mijia, aged 33, was appointed as the director of China Bright Industries Limited (formerly known as China Bright Mining Limited) since 10 April 2012 and was appointed as an executive Director of the Company since 12 September 2016. Ms. Xu joined the Group since December 2007 as Trading Manager Assistant. Ms. Xu is responsible for the implementation and management of marketing strategies and trading business of the Group. Ms. Xu has over 10 years of experience in bulk commodity especially in mineral industries.

Ms. Xu holds a bachelor's degree in economics from Sichuan University in China and a bachelor's degree in business administration from Montpellier Business School in France.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Independent Non-executive Directors

Mr. Leung Yiu Cho (梁耀祖), aged 39, is appointed as an independent non-executive director and chairman of audit committee of the Company with effect from 21 August 2017.

Mr. Leung has over 11 years of experience in financial management and corporate finance. Mr. Leung was appointed as independent non-executive director of Zheng Li Holdings Limited (a company listed on the Growth Enterprise Market of the Stock Exchange with the stock code of 8283) since 21 October 2016 and an executive director of Primeview Holdings Limited ("Primeview") (Stock Code: 0789), a company listed on the Main Board of the Stock Exchange ("Main Board") since 1 December 2016. Mr. Leung joined Primeview as its chief financial officer in December 2013 and has been its investment principal since October 2015. As the investment principal of Primeview, Mr. Leung is responsible for monitoring corporate finance transactions and investors relationship. Prior to that, Mr. Leung started his employment with Deloitte Touche Tohmatsu in June 2005 as a semisenior accountant before leaving as a senior accountant in July 2006. Between July 2006 and August 2007, he was the assistant financial controller of Ta Yang Group Holdings Limited) (Stock Code: 1991), a company listed on the Main Board. From August 2007 to September 2008, Mr. Leung joined CSC Securities (HK) Limited (群益證券(香港)有限公司) as an executive in the investment banking department. Mr. Leung was the financial controller and board secretary of United Technology Holdings Company Limited (聯合科技控股有限公司) in 2011. From March 2012 to August 2013, he joined Highland Asset Management Corporation (漢鎰資產管理股份有限公司) as its senior deputy finance manager and board secretary.

Mr. Leung graduated from Lingnan University (嶺南大學) in Hong Kong, in December 2001 with a bachelor of business administration degree. He then obtained his masters of corporate finance degree from The Hong Kong Polytechnic University (香港理工大學) in December 2006. He was admitted as a member of the Associate of Chartered Certified Accountants in March 2014. Save as disclosed above, Mr. Leung did not hold any directorships in any public listed companies in the last three years.

Dr. Li Zhongquan, aged 54, was appointed as an independent non-executive Director of the Company on 12 April 2013, mainly responsible for independent supervision and management of the Company. He was the leader in a variety of scientific research projects, including but not limited to the National "Eleventh Five-year" Key Scientific Research Project (國家「十一五」科技重大專項), the National "Ninth Five-year" Projects (國家「九五」項目), "Tenth Five-year" Technology Projects (國家「十五」項目).

Dr. Li obtained his bachelor's degree in science from the department of geology of Nanjing University (南京大學) in 1986 and his master's degree in science from the department of geology of Chengdu University of Technology (成都理工大學) (formerly known as Chengdu Geology College (成都地質學院)) in 1989, and working with Chengdu ever since. Dr. Li then obtained his doctor's degree in engineering from Chengdu University of Technology (成都理工大學) in June 1999, conducted research work subsequently for three years as a post doctorate in Peking University and completed post-doctoral research in Saint Louis University of United States from May 2005 to November 2006.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Dr. Wang Ling, aged 60, was appointed as an independent non-executive Director on 12 April 2013 and was re-elected as independent non-executive Director on 19 June 2015, mainly responsible for the independent supervision of the Company. He is also the chairman of the Remuneration Committee From October 2001 to May 2008, Dr. Wang served as the independent director of Xiwang Foodstuffs Co., Ltd. (西王食品股份有限公司) (stock code: SZ000639, formerly known as Zhuzhou Qingyun Development Co., Ltd. (株洲慶雲發展股份有限公司) and Hunan Ginde Development Co., Ltd. (湖南金德發展股份有限公司)), a company listed on the Shenzhen Stock Exchange. Save as disclosed herein, Dr. Wang is not and has not been a director of any other listed companies in Hong Kong or overseas in the past three years.

Before that, Dr. Wang worked with Changsha Institute of Geotectonics, Chinese Academy of Sciences (中國科學院長沙大地構造研究所) as an associate researcher, researcher and tutor for doctoral candidates successively. Dr. Wang has been a professor and tutor for doctoral candidates of Chengdu University of Technology (成都理工大學) since January 2002. He received the Government Special Allowance awarded by the State Council of China (國務院政府特殊津貼) in 1999 and was recognized as the Leader of Academy and Technology (學術和技術帶頭人) in Sichuan in 2003.

Dr. Wang graduated from Southwest University of Science and Technology (西南科技大學) in the PRC (formerly known as Sichuan Institute of Building Materials (四川建築材料工業學院)) with a bachelor's degree in non-metallic mineral geology and exploration in 1982, and obtained a doctoral degree from Changsha Institute of Geotectonics, Chinese Academy of Sciences (中國科學院長沙大地構造研究所) in 1994. Dr. Wang was a visiting scholar at the department of earth sciences in University of Cambridge from December 1999 to December 2000.

SENIOR MANAGEMENT

Mr. Yan Xiaodong, aged 59, was appointed as the Company's chief engineer on 12 April 2013, mainly responsible for on-site geological exploration and mining operations of the Group. Mr. Yan has approximately 33 years of experience in the mining industry. He joined our Group in March 2008 and since then had taken part in a number of field trips to Malaysia in search for suitable mining projects. In particular, as a chief engineer, Mr. Yan was responsible for prospecting, collection of samples and preparing internal analysis reports during the early development stage of the Ibam Mine. Mr. Yan is currently responsible for ore beneficiation of the Ibam Mine and geological prospecting.

And his working experience includes:

Between January 2003 and February 2007, Mr. Yan served as a deputy general manager of Sichuan Licheng Mining Appraisal Limited Company (四川立誠礦業評估有限公司), a company qualified to conduct mineral asset appraisal, where he was mainly responsible for appraisal of exploration rights and mining rights, providing geological and mining advice and advising on the feasibility of mining investment projects, etc., in various kinds of minerals including covered coal, iron, vanadium titanium magnetite, ferrochrome, gold, etc. As a key member of the technical team, Mr. Yan spent substantial time in fields to collect specimens and prepared appraisal reports.

Before that, Mr. Yan worked with the Sichuan Metallurgy and Geology Exploration Bureau of the Ministry of Metallurgical Industry (四川省冶金地質勘查局) where he successively served as technician, assistant engineer and engineer, where he focused on geological prospecting, special study on gold mines and polymetallic mines.

PROFILES OF DIRECTORS AND SENIOR MANAGEMENT

Mr. Yan graduated from Kunming Institute of Technology (昆明工學院) in the PRC majoring in mineral surveying and prospecting in 1983.

Mr. Wang Zeping, aged 61, was appointed a vice deputy manager and mine manager of the Company on 12 April 2013 as resident representative in Malaysia, mainly responsible for the supervision and management of the on-site production of Ibam Mine. Mr. Wang has approximately 36 years of experience in the mining industry. He joined our Group since March 2008 and appointed as director of Capture Bukit Besi in September 2013 where he mainly supervises the daily operation of beneficiation line of Ibam Mine.

Before joining the Group, Mr. Wang worked with Haikou Yiming Industry and Trade Company (海口怡明工貿公司) from January 1993 to November 2007 as deputy general manager and general manager, mainly responsible for the overall supervision of upgrading iron ore to higher grade iron concentrate and other iron products. Furthermore, Mr. Wang also stationed at the mining sites for preparing the mining project map and assisting clients with installation of production lines. Before that, Mr. Wang had worked with Standard Unit Factory of Haikou Machinery Bureau (海口機械局標準件廠) as a technician, director and deputy director successively, mainly responsible for overall supervision on the mining equipment manufacturing (e.g. ball mill and grinder), assisting clients on mining sites for mining equipment and providing assembly and production guidance.

Mr. Wang graduated from Haikou Technician School (海口市技工學校) in the PRC in 1980.

Mr. Chu Lok Fung Barry, aged 48, was appointed as the company secretary and financial controller of the Company on 12 April 2013. Mr. Chu is responsible for accounting, financial reporting and internal control procedures of the Company. Prior to joining the Group, Mr. Chu worked with a number of listed companies and was responsible for various finance and management control duties. Mr. Chu has over 14 years of experience of auditing, financial and accounting gained from international accounting firms and listed companies, and has served as the auditor of two audit firms in Hong Kong for more than six years. He is a Fellow Certified Public Accountant of the Hong Kong Institute of Certified Public Accountants and a Certified Practising Accountant of the CPA Australia.

Mr. Chu holds a master of economics from the University of Hong Kong, a master of arts in philosophy from the Chinese University of Hong Kong, a master of science in accountancy from the Hong Kong Polytechnic University and a bachelor's degree in business from Monash University in Australia.

COMPANY SECRETARY

Mr. Chu Lok Fung Barry is the company secretary of the Company. Please refer to the sub-section headed "Senior Management" above in this section for details of his biography.

DIRECTORS' REPORT

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

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The Company acts as an investment holding company. The activities of its principal subsidiaries are iron ore exploration, mining, crushing and beneficiation as well as sale of iron ore products in the form of iron ore concentrates and iron ore fines. There were no significant changes in the nature of the Group's principal activities during the year while the Company has consolidated its focus on trading of iron ore and has undertaken financing related businesses during the year under review. Details of the Company's subsidiaries as at 31 December 2018 are set out in note 1 to the Notes to Financial Statements of this annual report.

Further discussion and analysis of these activities as required by Schedule 5 to the Hong Kong Companies Ordinance, including a description of the principal risks and uncertainties facing the Group and an indication of likely future development in the Group's business, can be found in the Management Discussion and Analysis set out on pages 6 to 25 of this annual report. This discussion forms part of this directors' report.

ENVIRONMENTAL POLICIES AND PERFORMANCE

The Group recognizes the importance of proper adoption of environmental policies is essential to the attainability of corporate growth. The Group uses the open-pit mining method to simplify operations and reduce production costs. The Group produces iron ore products through a relatively low-cost process which includes ball-milling, magnetic separation process and dewatering. The method is environmentally friendly as it does not require chemical additives and reduces the amount of waste water produced. For more discussion on the Group's environmental, policies and performance, please refer to "Environmental, Social and Governance Report" on pages 39 to 48 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2018 and up to the date of this report, the Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Company.

RELATIONSHIPS WITH KEY STAKEHOLDERS

Discussions on the Group's relationships with its employees, customers and suppliers is contained in the section headed "Environmental, Social and Governance Report" on pages 39 to 48 of this report.

COMPLIANCE WITH LAWS AND REGULATIONS

The Group's operations are mainly carried out by the Company's subsidiaries in Hong Kong and Malaysia while the Company itself is listed on the main board of The Stock Exchange of Hong Kong Limited. The establishment and operations accordingly shall comply with relevant laws and regulations in Hong Kong, the PRC and Malaysia. During the year ended 31 December 2018 and up to the date of this report, the Group has complied with all the relevant laws and regulations in the PRC and Hong Kong.

CORPORATE GOVERNANCE

The Company's corporate governance report is set out on page 26 to 38 of this annual report.

DIRECTORS' REPORT

FUTURE PLAN

In light of the uncertain market conditions for the self-production of mine segment, the Group will focus more on the trading of commodities (including, but not limited to, iron ore), and also strive to diversify the income sources. The Group aims to diversify the business portfolio through self-development or strategic acquisition so that the scope of business becomes more diversified. A number of memorandum of understanding were signed with various parties during the year and negotiation is being processed. The Company would provide further information on the proposed projects in accordance with the requirements of the Listing Rules once available. For further details please refer to "Overview of Business Development" on page 6.

FINANCIAL KEY PERFORMANCE INDICATOR

Key performance indicators used by the Group are listed on page 2 to 3 of this annual report.

Please refer to the section headed "Financial Review" in the Management Discussion and Analysis in this annual report for details.

RESULTS AND DIVIDENDS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss and other comprehensive income on page 76 to 77.

No interim dividend was paid during the year (2017: Nil). The Directors do not recommend the payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

CLOSURE OF REGISTER OF MEMBERS

The AGM of the Company is scheduled on Friday, 31 May 2019. For determining the entitlement to attend and vote at the AGM, the register of members of the Company will be closed from Tuesday, 28 May 2019 to Friday, 31 May 2019, both days inclusive, during which period no transfer of Shares will be effected. In order to be eligible to attend and vote at the AGM, all transfer of shares, accompanied by the relevant share certificates, must be lodged with the Company's Hong Kong branch share registrar, Tricor Investor Services Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong no later than 4:30 p.m. on Monday, 27 May 2019.

DIRECTORS' REPORT

SUMMARY OF FINANCIAL INFORMATION

A five year summary of the consolidated results, assets and liabilities of the Group, as extracted from the audited consolidated financial statements of the Group and the Prospectus, is set out on pages 172 and 173 in this annual report. This summary does not form part of the audited financial statements.

BANK LOANS AND OTHER BORROWINGS

Particulars of bank loans and other borrowings of the Company and the Group, including the interest-free and security-free loan of USD60 million by Cosmo Field Holdings Limited, the Ultimate Parent company of the Company, as at 31 December 2018 are set out in note 22, note 23 and note 35(c) to the Notes to Financial Statements.

NOTES

Details of the notes issued by the Company are set out in note 24 to the Notes to Financial Statements.

PROPERTY, PLANT AND EQUIPMENT

Additions to property, plant and equipment of the Group for the year ended 31 December 2018 was USD2,000 (2017: USD6,000). Details of the movements during the year in the Group's property, plant and equipment are set out in note 13 to the Notes to Financial Statements of this annual report.

SHARE CAPITAL

Details of the movements during the year in the issued share capital of the Company are set out in note 27 to the Notes to Financial Statements of this annual report.

DISTRIBUTABLE RESERVES OF THE COMPANY

Details of the movements during the year in the reserves of the Group are set out in the consolidated statement of changes in equity on page 80 of this annual report. As at 31 December 2018, the Company's reserves available for distribution to the Shareholders in accordance with the Articles of Association was USD39.3 million (2017: USD49.6 million). Under the Companies Law, subject to the provision of its Articles of Association, the share premium account may be applied by the Company in paying distributions or dividends to its members or in paying up unissued shares to be issued to its members as fully paid bonus shares provided that no distribution or dividend may be paid to members out of the share premium account unless, immediately following the date on which the distribution or dividend is proposed to be paid, the Company is able to pay its debts as they fall due in the ordinary course of business. The reserves of the Company available for distribution depend on the dividend distributable by the Company's subsidiaries.

DIRECTORS' REPORT

PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association and there is no restriction against such rights which would oblige the Company to offer new Shares on a pro-rata basis to existing Shareholders.

PURCHASE, SALES OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

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

CHARITABLE CONTRIBUTIONS

During the year, the Group did not make any charitable contributions (2017: Nil).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 89.2% of the Group's total sales for the year ended 31 December 2018 (2017: 78.5%), and sales to its largest customer accounted for 28.6% of the Group's total sales for the year ended 31 December 2018 (2017: 29.6%). Purchases from the Group's five largest suppliers accounted for approximately 79.0% of the total purchases for the year ended 31 December 2018 (2017: 80.9%) and purchases from the largest supplier accounted for approximately 25.8% of total purchases for the year ended 31 December 2018 (2017: 37.9%).

None of the Directors, their associates or any Shareholders of the Company (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any interest in the Group's five largest customers and suppliers during the year.

The Board is of the view that the Group has maintained a harmonious business relationship with its major customers and suppliers during the year under review.

MANAGEMENT CONTRACTS

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

DIRECTORS

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

Executives Directors

Mr. Li Yang
Ms. Li Xiaolan
Mr. Wang Er
Ms. Xu Mijia

Independent Non-Executive Directors

Mr. Leung Yiu Cho
Dr. Li Zhongquan
Dr. Wang Ling

DIRECTORS' REPORT

In accordance with the Company's Articles of Association, at each AGM, one-third of the Directors for the time being (or, if their number is not a multiple of three, the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at an AGM at least once every three years. A retiring director shall be eligible for re-election. A director appointed to fill a vacancy or as an additional director shall retire at the next following general meeting and shall then be eligible for re-election. In compliance with the provisions of the Articles, Mr. Li Yang, Mr. Wang Er and Dr. Wang Ling shall retire from office by rotation, and, being eligible, offer themselves for re-election at the forthcoming AGM. All other remaining Directors continue in office.

The Company has received annual confirmation of independence from each of the three independent non-executive Directors in accordance with Rule 3.13 of the Listing Rules and considers them to be independent.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the above Directors and senior management are set out in the section headed "Profiles of Directors and Senior Management" on pages 49 to 53 of this annual report.

The Board is of the view that the Group has maintained a harmonious employment relationship with its board members and senior management during the year under review.

DIRECTORS' INTERESTS IN CONTRACTS

No Directors had a material interest, either directly or indirectly, in any contract of significance to the business of the Group to which the Company, or any of its holding companies, subsidiaries or fellow subsidiaries was a party for the year ended 31 December 2018.

Cosmo Field Holdings Limited, our controlling shareholder wholly-owned by Mr. Li Yang who is the executive Director, has provided a security-free and interest-free loan of USD60.0 million to the Company.

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

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors of the Company had engaged in any business or had any interest in business which competes or may constitutes competition directly or indirectly (within the meaning of the Listing Rules) with the business of the Group for the year ended 31 December 2018.

DIRECTORS' REPORT

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

At no time during the year were rights to acquire benefits by means of the acquisition of Shares of the Company granted to any Director or their respective spouse or minor children; or were any such rights exercised by them or was the Company, or any of its subsidiaries a party to any arrangement to enable those persons to acquire such rights in any other body corporate.

DIRECTORS' SERVICE CONTRACTS

Each of our executive Directors and independent non-executive Directors has entered into a service contract with the Company on 25 July 2017 for a term of three years.

None of the Directors has entered into any service agreement with the Company which is not determinable within one year without payment of compensation, other than the statutory compensation.

PERMITTED INDEMNITY PROVISION

The Company's Articles of Association provides that every Director shall be indemnified out of the assets of the Company against any liability, action, proceeding, claim, demand, costs, damages or expenses, including legal expenses as a result of any act or failure to act in carrying out his/her functions.

The Company has taken out and maintained directors and officers liability insurance since the Listing of the Company which provides appropriate cover for the Directors and directors of the subsidiaries of the Group.

DIRECTORS' AND CHIEF EXECUTIVE OFFICER'S INTERESTS AND SHORT POSITION IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, the Directors and the Chief Executive Officer of the Company had the following interests and short positions in the Shares, underlying Shares or the debentures of the Company or any of its associated corporations within the meaning of part XV of the SFO, which would have to be notified to the Company and the Stock Exchange pursuant to the provision of Divisions 7 and 8 of Part XV of the SFO (including interests and/or short positions of which they were taken or deemed to have under such provisions of the SFO) and/or required to be entered 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:

(i) Long positions in Shares of the Company:

Name of Director	Nature of Interest	Number of Ordinary Shares	Approximate percentage of the Company's issued share capital
Li Yang (notes 2 & 3)	Interest in controlled corporation	843,750,000 (L)	56.25%

DIRECTORS' REPORT

Note:

1. The letter "L" denotes the Shareholder's long position in the share capital while the letter "S" denotes the Shareholder's short position.

2. Mr. Li beneficially owns the entire issued share capital of Cosmo Field Holdings Limited ("Cosmo Field"). Therefore, Mr. Li is deemed, or taken to be, interested in all the shares of the Company held by Cosmo Field for the purpose of the SFO. Mr. Li is the sole director of Cosmo Field.

3. The Company has been notified that Cosmo Field have charged certain shares in favour of third parties as at the Latest Practicable Date:

   (a) The Company has been notified that 711,000,000 shares ("Shares") of the Company and 41,000,000 Shares which were previously charged by Cosmo Field in favour of Cheer Hope Holdings Limited, have been released on 23 September 2016 and 26 September 2016 respectively. The Company has also been notified that, Cosmo Field has charged 711,000,000 Shares and 41,000,000 Shares (collectively "Charged Shares") in favour of an independent third party institution on 23 September 2016 and 27 September 2016 respectively. The Charged Shares represent approximately 50.13% of the issued share capital of the Company as at the Latest Practicable Date.

   (b) The Company has been notified that, a deed of release has been executed on 4 January 2018 with respect to the Charged Shares which were previously charged by Cosmo Field in favour of the second priority lender (as set out in the announcement dated 29 December 2016). Cosmo Field has charged the Shares in favour of another secondary priority lender on 4 January 2018.

(ii) Long position in shares of the associated corporation:

Name of Director	Nature of associated corporation	Nature of Interest	Approximate percentage of interest in the share capital of the associated corporation
Li Yang (notes 2 & 3)	Cosmo Field	Beneficial owner	100.00%

Save as disclosed above, as at 31 December 2018, none of the Directors nor the Chief Executive Officers of the Company had any interests or short positions in any Shares, underlying Shares and/or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interest and/or short positions which were taken or deemed to have under such provisions of the SFO), or which were recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or which would have to be notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' REPORT

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSONS' INTEREST AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES

As at the date of this report, so far as it is known to the Directors, the persons (other than the Directors or Chief Executive Officer of the Company) with interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company under the provisions of Divisions 2 and 3 of Part XV of the SFO or which would be recorded in the register of the Company required to be kept under section 336 of the SFO or who are directly or indirectly interested in 5% or more of the nominal value of any class of share capital carrying rights to vote in all circumstance at general meetings of any member of the Group were as follows:

Substantial Shareholder	Capacity/Nature of interest	Number of Shares	Approximate percentage of shareholdings
Cosmo Field (notes 2, 3)	Beneficial owner	843,750,000 (L)	56.25 (L)
Ample Professional Limited (note 5)	Security interest in shares	752,000,000 (L)	50.13%
Huarong International Financial Holdings Limited (note 5)	Interest in controlled corporation	752,000,000 (L)	50.13%
中國華融資產管理股份有限公司 (note 5)	Interest in controlled corporation	752,000,000 (L)	50.13%
Haitong International Financial Products (Singapore) Pte. Ltd. (note 6)	Security interest in shares	172,352,000 (L)	11.49%
Haitong International Holdings Limited (note 6)	Interest in controlled corporation	172,352,000 (L)	11.49%
Haitong International Securities Group (Singapore) Pte. Ltd. (note 6)	Interest in controlled corporation	172,352,000 (L)	11.49%
Haitong International Securities Group Limited (note 6)	Interest in controlled corporation	172,352,000 (L)	11.49%
Haitong Securities Co., Ltd. (note 6)	Interest in controlled corporation	172,352,000 (L)	11.49%
Hua Heng (note 4)	Beneficial owner	100,575,000 (L)	6.71% (L)
Yang Jun (note 4)	Interest in controlled corporation	100,575,000 (L)	6.71% (L)
Tang Lingyan (note 4)	Interest of a Substantial Shareholder's child under 18 or spouse	100,575,000 (L)	6.71% (L)

Note:

1. The letter "L" denotes the Shareholder's long position in the share capital while the letter "S" denotes the Shareholder's short position.

2. Mr. Li beneficially owns the entire issued share capital of Cosmo Field Holdings Limited ("Cosmo Field"). Therefore, Mr. Li is deemed, or taken to be, interested in all the shares of the Company held by Cosmo Field for the purpose of the SFO. Mr. Li is the sole director of Cosmo Field.

DIRECTORS' REPORT

3. The Company has been notified that Cosmo Field have charged certain shares in favour of third parties as at the Latest Practicable Date:

   (a) The Company has been notified that 711,000,000 shares ("Shares") of the Company and 41,000,000 Shares which were previously charged by Cosmo Field in favour of Cheer Hope Holdings Limited, have been released on 23 September 2016 and 26 September 2016 respectively. The Company has also been notified that, Cosmo Field has charged 711,000,000 Shares and 41,000,000 Shares (collectively "Charged Shares") in favour of an independent third party institution on 23 September 2016 and 27 September 2016 respectively. The Charged Shares represent approximately 50.13% of the issued share capital of the Company as at the Latest Practicable Date.

   (b) The Company has been notified that, a deed of release has been executed on 4 January 2018 with respect to the Charged Shares which were previously charged by Cosmo Field in favour of the second priority lender (as set out in the announcement dated 29 December 2016). Cosmo Field has charged the Shares in favour of another secondary priority lender on 4 January 2018.

4. Tang Lingyan is the spouse of Mr. Yang Jun. Mr. Yang Jun beneficially owns the entire issued share capital of Hua Heng. Therefore, Tang Lingyan is deemed, or taken to be, interested in all the Shares of the Company held by Hua Heng for the purpose of the SFO. Mr. Yang Jun is the sole director of Hua Heng.

5. Each of Huarong International Financial Holdings Limited and 中國華融資產管理股份有限公司 is deemed, or taken to be, interested in all the interest held by Ample Professional Limited in the shares of the Company for the purpose of the SFO.

6. Each of Haitong International Holdings Limited, Haitong International Securities Group (Singapore) Pte. Ltd., Haitong International Securities Group Limited and Haitong Securities Co., Ltd. is deemed, or taken to be, interested in all the interest held by Haitong International Financial Products (Singapore) Pte. Ltd. in the shares of the Company for the purpose of the SFO.

Save as disclosed above, as at the date of this report, no other person had any interests or short positions in the Shares or underlying Shares of the Company which would fall to be disclosed to the Company and the Stock Exchange pursuant to Section 336 of the SFO or, were, directly or indirectly, interested in 5% or more of the nominal value of any class of share capital carrying rights to vote under all circumstances at general meetings of any other member of the Group.

AUDITOR

The Company has appointed Graham H.Y. Chan & Co. as auditor of the Company for the year ended 31 December 2018. For details, please refer to the circular dated 6 February 2018. A resolution will be proposed for approval by the Shareholders at the forthcoming annual general meeting for reappointment of Graham H.Y. Chan & Co. as auditor of the Company.

DIRECTORS' REPORT

REMUNERATION OF THE DIRECTORS

The remuneration of the Directors is determined with reference to the Directors' duties and responsibilities under their employment or service contracts as approved by the Company's Shareholders resolutions in writing on 12 April 2013 before the Listing and the Board under the authority of the shareholders' resolutions passed on 30 April 2014, with the operating results of the Group and performance of the individual taken into account and aligning with market statistics. Service contracts were renewed on 25 July 2017 for the Directors for a term of 3 years. Details of the remuneration of the Directors are set out in note 8 to the Notes to Financial Statements of this annual report.

RELATED PARTY TRANSACTIONS

Details of the related party transaction are stated in note 35 to the Notes to Financial Statements of this annual report, which comprise of, among others, (1) the interest-free and security-free shareholder loans of USD60,000,000 by Cosmo Field (the controlling shareholder of the Company) to the Company, and provision of guarantee by Mr. Li, his father and his controlled entity with respect to the Company's loans at nil consideration, which are all fully exempt connected transaction under Rule 14A.90 of the Listing Rules; and (2) remuneration payable to the Directors and other key management personnel of the Group.

RETIREMENT BENEFITS SCHEMES

Particulars of the retirement benefits schemes of the Group are set out in notes 2.4 and 7 to the Notes to Financial Statements.

SHARE OPTION SCHEME

The Share Option Scheme was conditionally adopted by the Shareholders by way of written resolution on 12 April 2013 for the purpose of attracting and retaining the best available personnel; providing additional incentive to employees (full-time and part-time), Directors, consultants, advisors, distributors, contractors, suppliers, agents, customers, business partners or service providers of our Group; and to promoting the success of the business of our Group. The terms of the Share Option Scheme are in accordance with the provisions of Chapter 17 of the Listing Rules.

The period of Share Option Scheme commences on 12 April 2013 and will expire at the close of business on the business day immediately preceding the tenth anniversary thereof on 11 April 2023.

The Board may, at its absolute discretion and on such terms as it may think fit, grant any employee (full-time or part-time), director, consultant or advisor of our Group, or any substantial shareholder of our Group, or any distributor, contractor, supplier, agent, customer, business partner or service provider of our Group, options to subscribe at a price calculated for such number of Shares as it may determine in accordance with the terms of the Share Option Scheme.

The basis of eligibility of any participant to the grant of any option shall be determined by the Board (or as the case may be, the independent non-executive Directors) from time to time on the basis of his contribution or potential contribution to the development and growth of our Group.

DIRECTORS' REPORT

The subscription price of a Share in respect of any particular option granted under the Share Option Scheme shall be a price solely determined by the Board and notified to a participant and shall be at least the higher of: (i) the closing price of our Shares as stated in the Stock Exchange's daily quotations sheet on the date of grant of the option, which must be a Business Day; (ii) the average of the closing prices of our Shares as stated in the Stock Exchange's daily quotations sheets for the five Business Days immediately preceding the date of grant of the option; and (iii) the nominal value of a Share on the date of grant of the option, provided always that for the purpose of calculating the subscription price, where our Company has been listed on the Stock Exchange for less than five Business Days, the new issue price shall be used as the closing price for any Business Day fallen within the period before listing.

An offer for the grant of options must be accepted within seven days inclusive of the day on which such offer was made. The amount payable by the grantee of an option to our Company on acceptance of the offer for the grant of an option is HK$1.00.

An option may be exercised in accordance with the terms of the Share Option Scheme at any time during a period as the Board may determine which shall not exceed ten years from the date of grant subject to the provisions of early termination thereof.

The maximum number of unexercised share options currently permitted to be granted under the Company's Scheme is an amount equivalent, upon their exercise, to 10% of the shares of the Company in issue at any time (being 150,000,000 Shares, representing 10% of the total issued shares of the Company as at 31 December 2018). The maximum number of shares issuable under share options to each eligible participant in the Company's Scheme within any 12-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of shares options in excess of this limit is subject to shareholders' approval in a general meeting. During the twelve months ended 31 December 2018, the Company may grant options in respect of up to 150,000,000 Shares to the participants under the Share Option Scheme, being 10% of the issued shares of the Company.

No option has lapsed, or has been granted, exercised or cancelled under the Share Option Scheme during the year ended 31 December 2018. Our Group did not have any outstanding share options, warrants, convertible instruments, or similar rights convertible into our Shares as at 31 December 2018.

DIRECTORS' REPORT

NON-COMPETITION UNDERTAKING

Each of the executive Directors (collectively the "Covenantors") have entered into a Deed of Non-Competition in favour of the Company (on behalf of itself and the Group) dated 9 June 2013 (the "Deed"). Pursuant to the Deed, each of the Covenantors shall procure that their respective associates shall not directly or indirectly engage in any business in competition with the existing business activity of the Group. Relevant information on the Deed was disclosed in the Prospectus in the section headed "Relationship with Controlling Shareholders".

The Company has received confirmations from the Covenantors of their compliance with the terms of the Deed. The Covenantors declared that they have fully complied with the Deed for the year ended 31 December 2018. The independent non-executive Directors have reviewed on the confirmations from the Covenantors and concluded that the Deed has been complied with and has been effectively enforced.

SUFFICIENCY OF PUBLIC FLOATING

Based on the information that is publicly available to the Company and as far as the Directors are aware, the Company has maintained at least 25% of public float as for the year ended 31 December 2018 and up to the date of this annual report..

On Behalf of the Board of Directors

LI Yang
Chairman and Chief Executive Officer

29 March 2019

INDEPENDENT AUDITOR'S REPORT

GRAHAM H. Y. CHAN & CO.

CERTIFIED PUBLIC ACCOUNTANTS (PRACTISING)

HONG KONG

TO THE SHAREHOLDERS OF CAA RESOURCES LIMITED

(incorporated in the Cayman Islands with limited liability)

OPINION

We have audited the consolidated financial statements of CAA Resources Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 76 to 171, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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 International Financial Reporting Standards ("IFRSs") issued by the International Accounting Standards Board (the "IASB") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

INDEPENDENT AUDITOR'S REPORT

Key audit matters identified in our audit are summarised as follows:

1. Going concern assessment

Nature of the key audit matter	How our audit addressed the key audit matter
a) Refer to note 2.1 to the consolidated financial statements, the final redemption date of the senior notes (the "Note 1") in the principal amount of approximately USD19,358,000 has been extended from 19 May 2018 to 31 December 2018 by the Letter Agreement ("Letter Agreement") entered into by the Company and the holder of the Note 1 on 19 May 2018. According to the Letter Agreement, the Company shall make payment to the holder of the Note 1 of an amount of US$500,000 on the last day of each month during the calendar year of 2018, commencing 31 May 2018 save that the amount payable on 31 December 2018 shall be an amount equal to all remaining indebtedness due on or in respect of the Note 1 outstanding at such time, and each payment shall apply first in payment of interest and any other amounts due on or in respect of the Note 1 and thereafter in redemption of the balance of the principal outstanding on the Note 1.	We obtained the Letter Agreement and the New Letter Agreement entered into by the Company and the relevant note holder to verify the terms for extending the final redemption date of the Note 1. We obtained the Bank Loan Repayment Schedule agreed between the Group and the relevant lender to verify the new terms for the repayment of the bank loans. We inspected the subsequent repayments of the bank loans up to the date of this report. We obtained the Cash Flow Forecast and assessed the reasonableness of the key assumptions adopted by management in the preparation of the Cash Flow Forecast based on the historical performance of the Group and the timing of maturities of the Group's financial obligations. We also compared the forecasted timing of collection of trade receivables of the Group's customers to their past repayment history.

INDEPENDENT AUDITOR'S REPORT

1. Going concern assessment (continued)

Nature of the key audit matter	How our audit addressed the key audit matter
Around and upon maturity, the Company and the holder of the Note 1 renegotiated the terms of the Note 1 and entered into another Letter Agreement ("New Letter Agreement") with the holder of the Note 1 to further extend the final redemption date from 31 December 2018 to 30 June 2019 on the condition that, among others, the Company shall make payment to the holder of the Note 1 of an amount of US$3,000,000 on or before 29 March 2019 and thereafter in an amount of US$500,000 on the last day of each succeeding month commencing on 31 March 2019 save that the amount payable on 30 June 2019 shall be an amount equal to all remaining indebtedness due on or in respect of the Note 1 outstanding at such time, and each payment shall apply first in payment of interest and any other amounts due on or in respect of the Note 1 and thereafter in redemption of the balance of the principal outstanding on the Note 1. b.) On 10 December 2018, the Group and the lender renegotiated the terms of bank loans with aggregate carrying amount at the end of the reporting period of USD40,946,000 and agreed a repayment schedule (the "Bank Loan Repayment Schedule") pursuant to which the above bank loans plus interest are to be settled by six instalments with the first instalment repayable in December 2018 and the last instalment repayable in November 2019.	We considered the impact of reasonably possible downside changes in the key assumptions underlying the Cash Flow Forecast by performing sensitivity analysis.

INDEPENDENT AUDITOR'S REPORT

1. Going concern assessment (continued)

Nature of the key audit matter	How our audit addressed the key audit matter
These above conditions increased the uncertainty about the Group's ability to continue as a going concern. In view of these circumstances, the directors of the Company prepared a cash flow forecast for a period of 12 months ending 31 December 2019 (the "Cash Flow Forecast"), which has taken into consideration the Group's cash position, expected status of subsequent settlement of trade receivables, expected financial performance of the Group and expected liquidity requirements. The directors are of the opinion that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future. Accordingly, the directors of the Company considered that there was not a material uncertainty in relation to going concern and it is appropriate to prepare the consolidated financial statements on a going concern basis. We focused on this area as assessing the Group's ability to continue as a going concern involves significant management's judgment about inherently uncertain future outcome of events or conditions.	

INDEPENDENT AUDITOR'S REPORT

2. Impairment assessment of non-current assets related to Ibam mine and an associate

Nature of the key audit matter	How our audit addressed the key audit matter
As at 31 December 2018, the Group had material balances in non-current assets related to the Ibam mine cash-generating unit (the "Ibam Mine CGU"), consisting of mining rights and reserves of USD12,680,000, property, plant and equipment of USD3,187,000 and goodwill of USD6,043,000; and had material balances in non-current assets related to an associate (the "Sponge Iron CGU"), consisting of investment in an associate of USD49,999,000 and goodwill of USD606,000. Management performed an impairment assessment based on value-in-use calculations of the recoverable amount of the Ibam Mine CGU and Sponge Iron CGU using the discounted cash flow projections. The impairment assessment of these two cash-generating units involves significant estimation uncertainty, subjective assumptions and application of significant judgement. The Group's disclosures in relation to the impairment test are set out in note 3 and note 17 to the consolidated financial statements, which specifically explain management's accounting estimates and key assumptions.	We obtained the discounted future cash flow projections of the Ibam Mine CGU and the Sponge Iron CGU prepared by the management, assessed the discount rates applied to the cash flow projections and the models that calculate the future cash flows, and evaluated the major assumptions and key inputs such as the estimated growth rates, selling prices, gross profit margins, sales and production volumes, etc. used in the cash flow projections. We tested the mathematical accuracy of the value-in-use calculations of the recoverable amounts of each CGU. In addition, we assessed the inputs used to determine the value-in-use calculations by comparing them to the business plans of each CGU as approved by the directors. We tested independently those assumptions to which the outcome of the impairment testing is most sensitive. For both CGUs, we calculated the degree to which those assumptions would need to increase or decrease before an impairment conclusion was triggered. We discussed the likelihood of such changes with management and agreed with their conclusion that they were unlikely. We also assessed the adequacy of the disclosures in the consolidated financial statements of the key assumptions used in the value-in-use calculations of the recoverable amount of each CGU.

INDEPENDENT AUDITOR'S REPORT

3. Recoverability of trade receivables

Nature of the key audit matter	How our audit addressed the key audit matter
The Group's trade receivables amounted to approximately USD205,093,000 (representing approximately 67.8% of the Group's total assets) as at 31 December 2018. Loss allowances for trade receivables are based on management's estimate of the lifetime expected credit losses to be incurred, which is estimated by taking into account the credit loss experience, ageing of trade receivables, customers' repayment history and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. Management has assessed the recoverability of the Group's trade receivables and concluded no credit loss provision is required as they are not past due as at 31 December 2018, there is no recent history of default and continuous payments are received. The Group's disclosures relating to trade receivables are included in note 3 and note 18 to the consolidated financial statements. We considered assessing the recoverability of trade receivables as a key audit matter because related balance is significant and assessment of the recoverability of trade receivables and the expected credit losses are inherently subjective and requires significant management judgement, which increases the risk of error or potential management bias.	We obtained audit confirmations from those customers with material trade receivable balances as at 31 December 2018 to confirm the respective trade receivable balances as at the year-end date. We checked, on a sample basis, whether items in the trade receivables ageing report used to assess the recoverability of trade receivables were classified within the appropriate ageing category by comparing individual items in the report with the relevant sales invoices, sales contracts and other supporting documents. We assessed the appropriateness of the credit loss provisioning methodology used by the Group. We inspected cash collections from the customers after 31 December 2018 relating to trade receivable balances as at 31 December 2018, on a sample basis.

INDEPENDENT AUDITOR'S REPORT

4. Valuation of unlisted equity investments

Nature of the key audit matter	How our audit addressed the key audit matter
As at 31 December 2018, the Group had material investments in unlisted equity investments which were designated as financial assets at fair value through other comprehensive income. The Group measured these investments at fair values which are based on the valuation carried out by an independent professional valuer (the "Valuer") at the end of the financial year. The valuation of such investments is inherently subjective as they are valued using financial models which require unobservable inputs rather than by reference to quoted prices in an active market. The Group's disclosures in relation to the valuation of its unlisted equity investments are included in note 3, note 16 and note 36 to the consolidated financial statements.	We reviewed the valuation reports from the Valuer and held discussion with management and the Valuer to understand the valuation basis, methodology used and underlying assumptions applied. We performed an assessment of the methodology and the valuation models and key inputs used by the Valuer to value the unlisted equity investments. We also evaluated the objectivity, competence and capabilities of the Valuer. We reviewed sensitivity analysis in consideration of the potential impact of reasonably possible upside or downside changes in the key inputs. We assessed the adequacy of the disclosures relating to the valuation of the Group's unlisted equity investments in the consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, other than 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 THE DIRECTORS 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 IFRSs issued by the IASB 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 of the Company are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors of the Company either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The directors of the Company are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

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

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

INDEPENDENT AUDITOR'S REPORT

As part of an audit in accordance with HKSAs, 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.

– 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.

INDEPENDENT AUDITOR'S REPORT

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHAN Ho Yin, Graham.

Graham H. Y. Chan & Co.
Certified Public Accountants (Practising)
Hong Kong

29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 USD'000	2017 USD'000
REVENUE	5	**1,447,008**	1,104,616
Cost of sales		**(1,428,623)**	(1,088,089)
Gross profit		**18,385**	16,527
Other income and gains		**1,862**	3,398
Selling and distribution expenses		**(267)**	(770)
Administrative expenses		**(5,672)**	(8,684)
Other expenses		**(983)**	(1,012)
Finance costs	6	**(10,057)**	(5,444)
Share of loss of an associate	15	**(1)**	–
PROFIT BEFORE TAX	7	**3,267**	4,015
Income tax expense	9	**(733)**	(600)
PROFIT FOR THE YEAR		**2,534**	3,415
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss:			
Changes in fair value of available-for-sale investments		**–**	(76)
Income tax effect		**–**	19
		–	(57)
Exchange differences on translation of foreign operations		**(371)**	1,828
		(371)	1,771
Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:			
Changes in fair value of equity investments designated as at fair value through other comprehensive income		**(8,541)**	–
Income tax effect		**1,452**	–
		(7,089)	–

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	**2018 USD'000**	2017 USD'000
OTHER COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR, NET OF TAX		**(7,460)**	1,771
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR		**(4,926)**	5,186
PROFIT FOR THE YEAR ATTRIBUTABLE TO:			
Equity shareholders of the Company		**2,534**	3,415
Non-controlling interests		**–**	–
		2,534	3,415
TOTAL COMPREHENSIVE (LOSS)/INCOME FOR THE YEAR ATTRIBUTABLE TO:			
Equity shareholders of the Company		**(4,926)**	5,186
Non-controlling interests		**–**	–
		(4,926)	5,186
Earnings per share attributable to ordinary equity shareholders of the Company:			
Basic and diluted (US cents)	10	**0.17**	0.23

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 USD'000	2017 USD'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	**3,352**	4,327
Mining rights and reserves	14	**12,680**	12,932
Investment in an associate	15	**49,999**	–
Financial assets at fair value through other comprehensive income	16	**15,267**	–
Available-for-sale investments	16	**–**	23,808
Goodwill	17	**6,649**	6,765
Deferred tax assets	25	**13**	25
Total non-current assets		**87,960**	47,857
CURRENT ASSETS			
Trade receivables	18	**205,093**	194,476
Prepayments, deposits and other receivables	19	**9,381**	50,899
Pledged deposits	20	**–**	7,124
Cash and cash equivalents	20	**183**	2,085
Total current assets		**214,657**	254,584
CURRENT LIABILITIES			
Trade payables	21	**1,953**	26,078
Other payables and accruals	22	**62,384**	63,503
Interest-bearing bank and other borrowings	23	**40,953**	56,017
Notes	24	**37,287**	20,882
Tax payable		**3,910**	3,590
Total current liabilities		**146,487**	170,070
NET CURRENT ASSETS		**68,170**	84,514
Total assets less current liabilities		**156,130**	132,371

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 USD'000	2017 USD'000
NON-CURRENT LIABILITIES			
Interest-bearing bank and other borrowings	23	**–**	7
Notes	24	**–**	19,810
Deferred tax liabilities	25	**2,910**	4,437
Provision for rehabilitation	26	**409**	380
Total non-current liabilities		**3,319**	24,634
Net assets		**152,811**	107,737
EQUITY			
Issued capital	27	**1,934**	1,934
Reserves	28	**149,164**	105,803
Equity attributable to equity shareholders of the Company		**151,098**	107,737
Non-controlling interests	12	**1,713**	–
Total equity		**152,811**	107,737

Li Yang
Director

Li Xiaolan
Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

Year ended 31 December 2018

	Attributable to equity shareholders of the Company											
	Issued capital USD'000 (note 27)	Share premium USD'000 (note 28(a))	Capital reserve USD'000 (note 28(b))	Contributed surplus USD'000 (note 28(c))	Available-for-sale investment revaluation reserve USD'000	Fair value reserve of financial assets at FVTOCI USD"000	Other reserve USD"000 (note 28(d))	Exchange fluctuation reserve USD'000	Retained earnings USD'000	Total USD'000	Non-controlling interests USD'000	Total equity USD'000
At 1 January 2017	1,934	47,541	14,956	50	4,413	–	–	(5,966)	39,623	102,551	–	102,551
Profit for the year	–	–	–	–	–	–	–	–	3,415	3,415	–	3,415
Other comprehensive income/(loss) for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	1,828	–	1,828	–	1,828
Changes in fair value of available-for-sale investments, net of tax	–	–	–	–	(57)	–	–	–	–	(57)	–	(57)
Total comprehensive income/(loss) for the year	–	–	–	–	(57)	–	–	1,828	3,415	5,186	–	5,186
At 31 December 2017	1,934	47,541*	14,956*	50*	4,356*	–	–	(4,138)*	43,038*	107,737	–	107,737
At 1 January 2018	1,934	47,541	14,956	50	4,356	–	–	(4,138)	43,038	107,737	–	107,737
Effect of adoption of IFRS 9	–	–	–	–	(4,356)	4,356	–	–	–	–	–	–
As at 1 January 2018 (restated)	1,934	47,541	14,956	50	–	4,356	–	(4,138)	43,038	107,737	–	107,737
Profit for the year	–	–	–	–	–	–	–	–	2,534	2,534	–	2,534
Other comprehensive income/(loss) for the year:												
Exchange differences related to foreign operations	–	–	–	–	–	–	–	(371)	–	(371)	–	(371)
Changes in fair value of financial assets at FVTOCI, net of tax	–	–	–	–	–	(7,089)	–	–	–	(7,089)	–	(7,089)
Total comprehensive income/(loss) for the year	–	–	–	–	–	(7,089)	–	(371)	2,534	(4,926)	–	(4,926)
Effect of change in ownership interest in a subsidiary without loss of control (note 11)	–	–	–	–	–	–	48,287	–	–	48,287	1,713	50,000
At 31 December 2018	1,934	47,541*	14,956*	50*	–	(2,733)*	48,287*	(4,509)*	45,572*	151,098	1,713	152,811

* These reserve accounts comprise the consolidated reserves of USD149,164,000 (2017: USD105,803,000) in the consolidated statement of financial position.

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 USD'000	2017 USD'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Profit before tax		**3,267**	4,015
Adjustments for:			
Finance costs	6	**10,057**	5,444
Share of loss of an associate	15	**1**	–
Unrealised foreign exchange losses/(gains)		**244**	(778)
Interest income		**(1,862)**	(2,611)
Write-off of other receivable	7	**314**	–
Depreciation	13	**896**	893
Amortisation of intangible assets	14	**23**	23
Operating profit before working capital changes		**12,940**	6,986
Increase in trade receivables		**(10,617)**	(102,558)
Decrease/(increase) in prepayments, deposits and other receivables		**41,495**	(33,122)
(Decrease)/increase in trade payables		**(24,125)**	4,110
Decrease in other payables and accruals		**(324)**	(203)
Cash generated from/(used in) operations		**19,369**	(124,787)
Interest received		**1**	1
Income tax paid		**(420)**	(2,623)
Net cash flows from/(used in) operating activities		**18,950**	(127,409)

CONSOLIDATED STATEMENT OF CASH FLOWS

Year ended 31 December 2018

	Notes	2018 USD'000	2017 USD'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**1,570**	2,196
Purchase of items of property, plant and equipment		**(2)**	(6)
Decrease in pledged deposits		**7,124**	3,920
Advances of loans to third parties		**–**	(18,500)
Collection of loans previously advanced to third parties		**–**	18,500
Net cash flows from investing activities		**8,692**	6,110
CASH FLOWS FROM FINANCING ACTIVITIES			
Loan from the ultimate holding company	29	**–**	10,000
Capital element of hire purchase arrangement payments	29	**(18)**	(62)
Net (decrease)/increase in bank borrowings	29	**(15,053)**	22,340
Proceeds from issue of notes	29	**–**	20,000
Notes issue expenses	29	**–**	(200)
Redemption of notes	29	**(3,915)**	–
Interest paid	29	**(10,557)**	(3,569)
Net cash flows (used in)/from financing activities		**(29,543)**	48,509
NET DECREASE IN CASH AND CASH EQUIVALENTS		**(1,901)**	(72,790)
Cash and cash equivalents at beginning of year		**2,085**	74,922
Effect of foreign exchange rate changes, net		**(1)**	(47)
CASH AND CASH EQUIVALENTS AT END OF YEAR	20	**183**	2,085

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION

CAA Resources Limited was incorporated as an exempted company with limited liability in the Cayman Islands. The registered office address of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The principal place of business of the Company is located at Suite 5602, 56th Floor, The Center, 99 Queen's Road Central, Hong Kong.

During the year ended 31 December 2018, the Group was principally engaged in the business of mining, ore processing, sales of iron ore products and other commodities to steel manufacturers and/or their respective purchase agents in Mainland China and other commodity trading companies, as well as investment holding.

In the opinion of the directors of the Company (the "Directors"), the holding company and the ultimate holding company of the Company is Cosmo Field Holdings Limited ("Cosmo Field"), which was incorporated in the British Virgin Islands (the "BVI").

Information about subsidiaries

Particulars of the Company's subsidiaries are as follows:

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company %	Principal activities
Directly held:				
Capture Advantage Co., Ltd. ("Capture Advantage")	BVI	USD50,000	100	Investment holding
Indirectly held:				
Best Sparkle Development Ltd.	BVI	USD50,000	100	Investment holding
Value Source Ventures Limited	BVI	–	100	Investment holding
Capture Advance Sdn. Bhd. ("Capture Advance")	Malaysia	Ringgit Malaysia ("RM") 15,000,000	100	Iron ore mining and iron or beneficiation
Pacific Mining Resources Sdn. Bhd. ("Pacific Mining")	Malaysia	RM100	90.88	Iron ore mining and iron ore beneficiation
Capture Bukit Besi Sdn. Bhd. ("Capture Bukit Besi")	Malaysia	RM2	100	Inactive

NOTES TO FINANCIAL STATEMENTS

31 December 2018

1. CORPORATE AND GROUP INFORMATION (continued)

Information about subsidiaries (continued)

Name	Place of incorporation/ registration and business	Issued ordinary/ registered share capital	Percentage of equity attributable to the Company %	Principal activities
Indirectly held: (continued)				
China Bright Industries Limited ("China Bright HK")	Hong Kong	Hong Kong dollar ("HKD")100	100	Purchase and sale of iron ore products and trading of commodities
3W Development Limited	Hong Kong	HKD10,000	100	Investment holding
Keen Wise Asia Investment Limited	Hong Kong	HKD1	100	Investment holding
Shenzhen Shihua Information Technology Limited	Mainland China	Renminbi ("RMB") 5,000,000	100	Investment holding
China Bright (Pte.) Limited	Singapore	Singapore dollar ("SGD") 1	100	Inactive

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION

These consolidated financial statements have been prepared in accordance with all applicable International Financial Reporting Standards ("IFRSs"), which collective term includes all applicable individual International Financial Reporting Standards, International Accounting Standards ("IAS") and Interpretations issued by the International Accounting Standards Board ("IASB"). These consolidated financial statements also comply with the applicable disclosure requirements of the Hong Kong Companies Ordinance and the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("SEHK"). They have been prepared under the historical cost convention except that financial assets at fair value through other comprehensive income are stated at their fair values as explained in the accounting policies set out in note 2.4. These consolidated financial statements are presented in United States dollars ("USD") and all values are rounded to the nearest thousand except when otherwise indicated.

Going concern basis

According to the Letter Agreement ("Letter Agreement") entered into by the Company and the holder of the senior notes ("Note 1") on 19 May 2018, the final redemption date of the Note 1 in the principal amount of approximately USD19,358,000 as at 31 December 2018 has been extended from 19 May 2018 to 31 December 2018. According to the Letter Agreement, the Company shall make payment to the holder of the Note 1 of an amount of US$500,000 on the last day of each month during the calendar year of 2018, commencing 31 May 2018 save that the amount payable on 31 December 2018 shall be an amount equal to all remaining indebtedness due on or in respect of the Note 1 outstanding at such time, and each payment shall apply first in payment of interest and any other amounts due on or in respect of the Note 1 and thereafter in redemption of the balance of the principal outstanding on the Note 1.

Around and upon maturity, the Company and the holder of the Note 1 renegotiated the terms of the Note 1 and entered into another Letter Agreement ("New Letter Agreement") with the holder of the Note 1 to further extend the final redemption date from 31 December 2018 to 30 June 2019 on the condition that, among others, the Company shall make payment to the holder of the Note 1 of an amount of US$3,000,000 on or before 29 March 2019 and thereafter in an amount of US$500,000 on the last day of each succeeding month commencing on 31 March 2019 save that the amount payable on 30 June 2019 shall be an amount equal to all remaining indebtedness due on or in respect of the Note 1 outstanding at such time, and each payment shall apply first in payment of interest and any other amounts due on or in respect of the Note 1 and thereafter in redemption of the balance of the principal outstanding on the Note 1.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION (continued)

Going concern basis (continued)

On 10 December 2018, the Group and the lender renegotiated the terms of bank loans with aggregate carrying amount at the end of the reporting period of USD40,946,000 and agreed a repayment schedule pursuant to which the above bank loans plus interest are to be settled by six instalments with the first instalment repayable in December 2018 and the last instalment repayable in November 2019.

In view of these circumstances, the Directors prepared a cash flow forecast for a period of 12 months ending 31 December 2019, which has taken into consideration the Group's cash position, expected status of subsequent settlement of trade receivables, expected financial performance of the Group and expected liquidity requirements. The Directors are of the opinion that the Group will have sufficient financial resources to finance its operations and to meet its financial obligations as and when they fall due in the foreseeable future. The consolidated financial statements for the year have been prepared on a going concern basis, the validity of which depends upon the success of the Group in generating sufficient cash flows from its operations.

Should the going concern assumption be inappropriate, adjustments may have to be made to reflect the situation that assets may need to be realised at the amounts other than which they are currently recorded in the consolidated statement of financial position. In addition, the Group may have to provide for further liabilities that might arise, and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries for the year ended 31 December 2018. A subsidiary is an entity, directly or indirectly, controlled by the Company. Control is achieved when the Group is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee (i.e., existing rights that give the Group the current ability to direct the relevant activities of the investee).

When the Company has, directly or indirectly, less than a majority of the voting or similar rights of an investee, the Group considers all relevant facts and circumstances in assessing whether it has power over an investee, including:

(a) the contractual arrangement with the other vote holders of the investee;

(b) rights arising from other contractual arrangements; and

(c) the Group's voting rights and potential voting rights.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.1 BASIS OF PREPARATION (continued)

Basis of consolidation (continued)

The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

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

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

If the Group loses control over a subsidiary, it derecognises (i) the assets (including goodwill) and liabilities of the subsidiary, (ii) the carrying amount of any non-controlling interest and (iii) the cumulative translation differences recorded in equity; and recognises (i) the fair value of the consideration received, (ii) the fair value of any investment retained and (iii) any resulting surplus or deficit in profit or loss. The Group's share of components previously recognised in other comprehensive income is reclassified to profit or loss or retained earnings, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

A change in the ownership interest in a subsidiary that does not result in a loss of control is treated as transactions with equity owners of the Group. A change in ownership interest results in an adjustment between the carrying amounts of the controlling and non-controlling interests to reflect their relative interests in the subsidiary. Any difference between the amount of the adjustment to non-controlling interests and any consideration paid or received are recognised in a separate reserve within equity attributable to owners of the Group.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 APPLICATION OF NEW AND REVISED IFRSs

The Group has applied, for the first time, the following new and amendments to IFRSs which are effective for annual periods beginning on or after 1 January 2018.

Amendments to IFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to IFRS 4	Applying IFRS 9 Financial Instruments with IFRS 4 Insurance Contracts
IFRS 9	Financial Instruments
IFRS 15	Revenue from Contracts with Customers
Amendments to IFRS 15	Clarifications to IFRS 15 Revenue from Contracts with Customers
Amendments to IAS 40	Transfers of Investment Property
IFRIC 22	Foreign Currency Transactions and Advance Consideration
Annual Improvements to IFRSs 2014 – 2016 Cycle	Amendments to IFRS 1 and IAS 28

Except as described below, the application of the new and amendments to IFRSs 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.

IFRS 15 Revenue from Contracts with Customers

IFRS 15 replaces the previous revenue standards IAS 18 "Revenue" and IAS 11 "Construction Contracts" and related interpretations and is effective for annual periods beginning on or after 1 January 2018. IFRS 15 establishes a new five-step model to account for revenue arising from contracts with customers. Under IFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in IFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The Group had assessed the effects of adoption of IFRS 15 on its consolidated financial statements and considered that the adoption of IFRS 15 did not have a significant impact on the financial position and results of operations of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 APPLICATION OF NEW AND REVISED IFRSs (continued)

IFRS 9 Financial Instruments

In the current year, the Group has applied IFRS 9 "Financial Instruments" and the related consequential amendments to other IFRSs. IFRS 9 introduces new requirements 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 IFRS 9 in accordance with the transition provisions set out in IFRS 9, i.e., applied the classification and measurement requirements (including impairment under ECL model) retrospectively to instruments that have not been derecognized as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognized as at 1 January 2018. The difference between the carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening retained earnings and other components of equity, without restating comparative information. Accordingly, certain comparative information may not be comparable as comparative information has been prepared under IAS 39 "Financial Instruments: Recognition and Measurement".

Accounting policies resulting from application of IFRS 9 are disclosed in note 2.4. Further details of the nature and effect of the changes to previous accounting policies are as set out below:

Classification and measurement of financial instruments

The Directors reviewed and assessed the Group's existing financial instruments as at 1 January 2018 based on the facts and circumstances that existed at that date and concluded that:

– the Group's unlisted equity investments that were previously classified as available-for-sale investments and were measured at fair values at each reporting date under IAS 39 have been designated as at fair value through other comprehensive income ("FVTOCI"). The Group elected to classify irrevocably its unlisted equity investments under this category as these investments are held as long-term strategic investments that are not expected to be sold in the short to medium term. As a result, the Group's unlisted equity investments with carrying amount of USD23,808,000 were reclassified from available-for-sale investments to financial assets at FVTOCI and the accumulated fair value gains of USD4,356,000 were reclassified from the available-for-sale investment reserve to the fair value reserve of financial assets at FVTOCI on 1 January 2018. Gains and losses recorded in OCI for these investments cannot be recycled to profit or loss when the investments are derecognised;

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.2 APPLICATION OF NEW AND REVISED IFRSs (continued)

IFRS 9 Financial Instruments (continued)

Classification and measurement of financial instruments (continued)

– the Group's financial assets classified as loans and receivables and measured at amortised cost under IAS 39 continue to be measured at amortised cost under IFRS 9 as they are held within a business model to collect contractual cash flows and these cash flows consist solely of payments of principal and interest on the principal amount outstanding.

– all the Group's financial liabilities that were measured at amortised cost under IAS 39 continue to be measured at amortised cost under IFRS 9.

When a debt investment measured at FVTOCI is derecognized, the cumulative gain or loss previously recognised in other comprehensive income is reclassified from equity to profit or loss as a reclassification adjustment. When an equity investment designated as measured at FVTOCI is derecognized, the cumulative gain or loss previously recognised in other comprehensive income is subsequently transferred to retained earnings.

Debt instruments that are measured subsequently at amortised cost or at FVTOCI are subject to impairment.

Impairment of financial assets

The adoption of IFRS 9 has changed the Group's accounting for impairment losses for financial assets by replacing IAS 39's incurred loss model with a forward-looking expected credit loss ("ECL") model. As at 1 January 2018, the Directors 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 requirement of IFRS 9.

It is concluded that, as at 1 January 2018, no additional credit loss allowance has been recognised against retained earnings as the estimated allowance under the ECL model were not significantly different to the impairment losses previously recognised under IAS 39. As at 1 January 2018, no credit loss allowance has been recognised against retained earnings due to in the opinion of the Directors that the amount is insignificant.

The Group has applied the new ECL model to all financial assets measured at amortised cost (including cash and cash equivalents, pledged deposits, and trade and other receivables). Further details on the Group's accounting policy for accounting for credit losses are set out in note 2.4.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs

The Group has not early applied the following new and amendments to IFRSs that have been issued but are not yet effective, in these consolidated financial statements.

Annual Improvements to IFRSs 2015-2017 Cycle	Amendments to IFRS 3 Business Combinations, IFRS 11 Joint Arrangements, IAS 12 Income Taxes and IAS 23 Borrowing Costs[1]
Amendments to IFRS 3	Definition of a Business[5]
Amendments to IFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to IFRS 10 and IAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[2]
Amendments to IAS 1 and IAS 8	Definition of Material[3]
Amendments to IAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to IAS 28	Long-term Interests in Associates and Joint Ventures[1]
IFRS 16	Leases[1]
IFRS 17	Insurance Contracts[4]
IFRIC 23	Uncertainty over Income Tax Treatments[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 No mandatory effective date yet determined but available for adoption
3 Effective for annual periods beginning on or after 1 January 2020
4 Effective for annual periods beginning on or after 1 January 2021
5 Effective for acquisitions that occur on or after the first annual reporting period beginning on or after 1 January 2020

The Group is in the process of assessing potential impact of the above new standards, amendments to existing standards and new interpretations that are relevant to the Group upon initial application. So far the Group has identified some aspects of IFRS 16 which may have an impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for IFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in its consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.3 ISSUED BUT NOT YET EFFECTIVE IFRSs (continued)

IFRS 16 Leases

IFRS 16 replaces IAS 17 *Leases*, IFRIC 4 *Determining whether an Arrangement Contains a Lease*, SIC-15 *Operating Leases – Incentives* and SIC-27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in IAS 40. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to re-measure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments.

Lessees will generally recognise the amount of the re-measurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under IFRS 16 is substantially unchanged from the accounting under IAS 17. Lessors will continue to classify all leases using the same classification principle as in IAS 17 and distinguish between operating leases and finance leases. The date of initial application of IFRS 16 for the Group will be 1 January 2019. As at 31 December 2018, the Group had non-cancellable operating lease commitments of USD904,000 for properties and motor vehicles as set out in note 33. A preliminary assessment indicated that these arrangements will meet the definition of a lease. Upon the initial adoption of IFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

Other than the above, the Group does not anticipate that the application of this standard will have material impact on the consolidated financial statements of the Group.

According to the preliminary assessment made by the Directors, the Group does not anticipate any significant impact on the Group's financial position and results of operations upon adopting the other new standards, amendments to existing standards and new interpretations. The management of the Group plans to adopt these new standards, amendments to existing standards and new interpretations when they become effective.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Business combinations and goodwill

Business combinations are accounted for using the acquisition method. The consideration transferred is measured at the acquisition date fair value which is the sum of the acquisition date fair values of assets transferred by the Group, liabilities assumed by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. For each business combination, the Group elects whether to measure the non-controlling interests in the acquiree that are present ownership interests and entitle their holders to a proportionate share of net assets in the event of liquidation at fair value or at the proportionate share of the acquiree's identifiable net assets. All other components of non-controlling interests are measured at fair value. Acquisition-related costs are expensed as incurred.

When the Group acquires a business, it assesses the financial assets and liabilities assumed for appropriate classification and designation in accordance with the contractual terms, economic circumstances and pertinent conditions as at the acquisition date. This includes the separation of embedded derivatives in host contracts of the acquiree.

If the business combination is achieved in stages, the previously held equity interest is remeasured at its acquisition date fair value and any resulting gain or loss is recognised in profit or loss.

Any contingent consideration to be transferred by the acquirer is recognised at fair value at the acquisition date. Contingent consideration classified as an asset or liability is measured at fair value with changes in fair value recognised in profit or loss. Contingent consideration that is classified as equity is not remeasured and subsequent settlement is accounted for within equity.

Goodwill is initially measured at cost, being the excess of the aggregate of (a) the consideration transferred, (b) the amount of any non-controlling interests in the acquiree; and (c) any fair value of the Group's previously held equity interests in the acquiree over the fair value of the identifiable net assets acquired and liabilities assumed. If the sum of this consideration and other items is lower than the fair value of the net assets acquired, the difference is, after reassessment, recognised in profit or loss as a gain on bargain purchase.

After initial recognition, goodwill is measured at cost less any accumulated impairment losses. Goodwill is tested for impairment annually or more frequently if events or changes in circumstances indicate that the carrying value may be impaired. The Group performs its annual impairment test of goodwill as at 31 December. For the purpose of impairment testing, goodwill acquired in a business combination is, from the acquisition date, allocated to each of the Group's cash-generating units, or groups of cash-generating units, that are expected to benefit from the synergies of the combination, irrespective of whether other assets or liabilities of the Group are assigned to those units or groups of units.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill (continued)

Impairment is determined by assessing the recoverable amount of the cash-generating unit (group of cash-generating units) to which the goodwill relates. Where the recoverable amount of the cash-generating unit (group of cash-generating units) is less than the carrying amount, an impairment loss is recognised. An impairment loss recognised for goodwill is not reversed in a subsequent period.

Where goodwill has been allocated to a cash-generating unit (or group of cash-generating units) and part of the operation within that unit is disposed of, the goodwill associated with the operation disposed of is included in the carrying amount of the operation when determining the gain or loss on the disposal. Goodwill disposed of in these circumstances is measured based on the relative value of the operation disposed of and the portion of the cash-generating unit retained.

Investments in associates

An associate is an entity over which the Group has significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the investee, but is not control or joint control over those policies. The considerations made in determining significant influence are similar to those necessary to determine control over subsidiaries.

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting, except when the investment is classified as held for sale (or included in a disposal group that is classified as held for sale), in which case it is accounted for in accordance with IFRS 5.

Under the equity method, an investment in an associate is initially recognised at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Dividends receivable from associates are recognised as a reduction in the carrying amount of the investment.

When the Group's share of losses of an associate equals or exceeds its interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

Accounting policies of the associates have been changed where necessary to ensure consistency with the policies adopted by the Group.

The requirements of IAS 36 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with IAS 36 as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised is not allocated to any asset, including goodwill that forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with IAS 36 to the extent that the recoverable amount of the investment subsequently increases.

Upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the associate is disposed of.

Fair value measurement

The Group's equity investments designated at FVTOCI are measured at fair value at the end of each reporting period. Fair value is the price that would be received to sell an asset in an orderly transaction between market participants at the measurement date. The fair value measurement is based on the presumption that the transaction to sell the asset or transfer the liability takes place either in the principal market for the asset or liability, or in the absence of a principal market, in the most advantageous market for the asset or liability. The principal or the most advantageous market must be accessible by the Group. The fair value of an asset or a liability is measured using the assumptions that market participants would use when pricing the asset or liability, assuming that market participants act in their economic best interest.

A fair value measurement of a non-financial asset takes into account a market participant's ability to generate economic benefits by using the asset in its highest and best use or by selling it to another market participant that would use the asset in its highest and best use.

The Group uses valuation techniques that are appropriate in the circumstances and for which sufficient data are available to measure fair value, maximising the use of relevant observable inputs and minimising the use of unobservable inputs.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets

The Group assesses, at each reporting date, whether there is an indication that an asset may be impaired. If any indication exists, or when annual impairment testing for an asset is required (other than inventories, financial assets and deferred tax assets), the Group estimates the asset's recoverable amount. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. 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. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

For assets excluding goodwill, an assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the Group estimates the asset's or cash-generating unit's recoverable amount. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the assumptions used to determine the recoverable amount of that asset since the last impairment loss was recognised, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. Such reversal is credited to profit or loss in the period in which it arises unless the asset is carried at a revalued amount, in which case, the reversal is treated as a revaluation increase.

Goodwill is tested for impairment annually as at 31 December and when circumstances indicate that the carrying value may be impaired.

Impairment is determined for goodwill by assessing the recoverable amount of each cash-generating unit (or group of cash-generating units) to which the goodwill relates. When the recoverable amount of the cash-generating unit is less than its carrying amount, an impairment loss is recognised. Impairment losses relating to goodwill cannot be reversed in future periods.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Related parties

A party is considered to be related to the Group if:

(a) the party is a person or a close member of that person's family and 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 of a parent of the Group;

or

(b) the party is an entity where 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) the entity and the Group are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(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); and

(viii) the entity, or any member of a group which it is a part, provides key management personnel services to the Group or to the parent of the Group.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any accumulated impairment losses. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred. In situations where the recognition criteria are satisfied, the expenditure for a major inspection is capitalised in the carrying amount of the asset as a replacement. Where significant parts of property, plant and equipment are required to be replaced at intervals, the Group recognises such parts as individual assets with specific useful lives and depreciates them accordingly.

Depreciation is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The estimated useful lives of property, plant and equipment are as follows:

Mine properties	10 years
Machinery	3-10 years
Motor vehicles	3-5 years
Others	3-5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted prospectively if appropriate, at least at each financial year end.

An item of property, plant and equipment including any significant part initially recognised is derecognised upon disposal or when no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the year the asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant asset.

Construction in progress represents items of property, plant and equipment under construction, which is stated at cost less any accumulated impairment losses, and is not depreciated. Cost comprises the direct costs of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is the fair value at the date of acquisition. Following initial recognition, intangible assets are carried at cost less any accumulated amortisation and any accumulated impairment losses.

The useful lives of intangible assets are assessed to be either finite or indefinite.

Intangible assets with finite lives are amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end. Changes in the expected useful life or the expected pattern of consumption of future economic benefits embodied in the asset are considered to modify the amortisation period or method, as appropriate, and are treated as changes in accounting estimates. The amortisation expense on intangible assets with finite lives is recognised in profit or loss in the expense category that is consistent with the function of the intangible assets.

An intangible asset is derecognised upon disposal (i.e., at the date the recipient obtains control) or when no future economic benefits are expected from its use or disposal. Any gain or loss arising upon derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss.

Mining rights and reserves

Mining rights and reserves are stated at cost less accumulated amortisation and any impairment losses. Mining rights and reserves include the cost of acquiring mining licences, exploration and evaluation costs transferred from exploration rights and assets upon determination that an exploration property is capable of commercial production, and the cost of acquiring interests in the mining reserves of existing mining properties. The mining rights and reserves are amortised over the estimated useful lives of the mines, in accordance with the production plans of the entities concerned and the proved and probable reserves of the mines using the Units of Production (“UOP”) method. Mining rights and reserves are written off to profit or loss if the mining property is abandoned.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

The determination of whether an arrangement is (or contains) a lease is based on the substance of the arrangement at the inception of the lease. The arrangement is, or contains, a lease if fulfilment of the arrangement is dependent on the use of a specific asset (or assets) and the arrangement conveys a right to use the asset (or assets), even if that asset is (or those assets are) not explicitly specified in an arrangement.

A lease is classified at the inception date as a finance lease or an operating lease. A lease that transfers substantially all the risks and rewards incidental to ownership to the Group is classified as a finance lease.

Finance leases are capitalised at the commencement of the lease at the inception date fair value of the leased property or, if lower, at the present value of the minimum lease payments. Lease payments are apportioned between finance charges and reduction of the lease liability so as to achieve a constant rate of interest on the remaining balance of the liability. Finance charges are recognised as finance costs in profit of loss.

A leased asset is depreciated over the useful life of the asset. However, if there is no reasonable certainty that the Group will obtain ownership by the end of the lease term, the asset is depreciated over the shorter of the estimated useful life of the asset and the lease term.

An operating lease is a lease other than a finance lease. Operating lease payments are recognised as an operating expense in profit or loss on a straight-line basis over the lease term.

Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss) 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 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets

Classification and subsequent measurement of financial assets (upon application of IFRS 9)

All recognised financial assets are measured subsequently in their entirety at either amortised cost or fair value, depending on the classification of the financial assets.

Debt instruments 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 of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

– The financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

– The contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

By default, all other financial assets are measured subsequently at fair value through profit or loss ("FVTPL").

Despite of the foregoing, the Group may make the following irrevocable election/designation at initial recognition of a financial asset:

– The Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if certain criteria are met; and

– The Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9) (continued)

(i) Financial assets at amortised cost

The amortised cost of a financial asset is the amount at which the financial asset is measured at initial recognition minus the principal repayments, plus the cumulative amortization using the effective interest method of any difference between that initial amount and the maturity amount, adjusted for any loss allowance. The gross carrying amount of a financial asset is the amortised cost of a financial asset before adjusting for any loss allowance.

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

(ii) Equity instruments designated as at FVTOCI

On initial recognition, the Group may make an irrevocable election (on an instrument-by-instrument basis) to designate investments in equity instruments as at FVTOCI. Designation at FVTOCI is not permitted if the equity investment is held for trading or if it is contingent consideration recognised by an acquirer in a business combination.

A financial asset is held for trading if:

– It has been acquired principally for the purpose of selling 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 evidence of a recent actual pattern of short-term profit-taking; or

– It is a derivative (except for a derivative that is a financial guarantee contract or a designated and effective hedging instrument).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (upon application of IFRS 9) (continued)

(ii) Equity instruments designated as at FVTOCI (continued)

Investments in equity instruments at FVTOCI are initially measured at fair value plus transaction costs. Subsequently, they are measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in fair value reserve of financial assets at FVTOCI. The cumulative gains or losses are not reclassified to profit or loss on disposal of the equity investments, instead, they are transferred to retained earnings.

Dividends on these investments in equity instruments are recognised in profit or loss in accordance with IFRS 9, unless the dividends clearly represent a recovery of part of the cost of investment.

The Group has designated all investments in equity instruments that are not held for trading as at FVTOCI on initial application of IFRS 9.

Impairment of financial assets (upon application of IFRS 9)

The Group recognizes a loss allowance for ECL on financial assets which are subject to impairment under IFRS 9. The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

ECLs are measured on either of the following bases:

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

– Lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the relevant financial instrument.

Assessment is made 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.

Losses allowances for trade receivables are always measured at an amount equal to lifetime ECLs. For other financial assets, the Group measures the loss allowance equal to 12-month ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognizes 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.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9) (continued)

(i) Significant increase in credit risk

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

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

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

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

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

– Existing or forecast adverse changes in the regulatory, business, economic or technological environment of the debtor that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

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 the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9) (continued)

(ii) Definition of default

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

(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 debtor;

(b) A breach of contract, such as default or delinquency in interest or principal payments;

(c) Significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor;

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

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

(iv) Write-off policy

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

Impairment of financial assets (upon application of IFRS 9) (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.

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

For a financial guarantee contract issued by the Company, as the Company is required to make payments only in the event of a default by the debtor in accordance with the terms of the instrument that is guaranteed, the expected loss allowance is the expected payments to reimburse the holder for a credit loss that it incurs less any amounts that the Company expects to receive from the holder, the debtor or any other party.

The Group recognizes an impairment gain or loss in profit or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account.

Derecognition of financial assets (upon application of IFRS 9)

The Group derecognises a financial asset only when the contractual rights to receive 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. In addition, on derecognition of an investment in a debt instrument classified as at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve of financial assets at FVTOCI is classified to profit or loss. In contrast, on derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in the fair value reserve of financial assets at FVTOCI is not reclassified to profit or loss, but is transferred to retained earnings.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

The Group's financial assets are classified into two categories, including available-for-sale investments 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 ways purchases or sales of financial assets are recognised and derecognized 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.

Available-for-sale investments

Available-for-sale investments are those non-derivatives that either are designated as available-for-sale or are not classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments.

At the end of each reporting period subsequent to initial recognition, available-for-sale investments are measured at fair value. Changes in fair value are recognized in other comprehensive income and accumulated under the heading of available-for sale investment revaluation reserve until the financial asset is disposed of or is determined to be impaired, at which time, the cumulative gain or loss previously accumulated in the available-for-sale investment revaluation reserve is reclassified to profit or loss (see accounting policy in respect of impairment of financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. At the end of each reporting period subsequent to initial recognition, loans and receivables are measured at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy in respect of impairment of financial assets below), unless the effect of discounting would be immaterial, in which case they are stated at cost less provision for impairment.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

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

For available-for-sale equity investments, a significant or prolonged decline in the fair value of the investment below its cost is considered to be objective evidence of impairment.

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 default or delinquency in interest or principal payments; or

– it is becoming probable that the borrower will enter bankruptcy or financial re-organisation; or

– the disappearance of an active market for that financial asset because of financial difficulties.

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.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial assets (continued)

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

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

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.

When an available-for-sale investment is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income are reclassified to profit or loss in the period.

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 loss was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognized in profit or loss are not reversed through profit or loss in subsequent periods. Any increase in fair value subsequent to an impairment loss is recognized in other comprehensive income and accumulated under the heading of available-for-sale investment revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Derecognition of financial assets (before application of IFRS 9 on 1 January 2018)

The Group derecognises a financial asset only when the contractual rights to receive 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, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments (continued)

Financial liabilities

Financial liabilities at amortised cost

The Group's financial liabilities including trade and other payables, interest-bearing bank and other borrowings and notes are subsequently measured at amortised cost, using the effective interest rate method unless the effect of discounting would be immaterial, in which case they are stated at cost.

Amortised cost is calculated by taking into account any discount or premium on acquisition and fees or costs that are integral part of the effective interest rate. The effective interest rate amortisation is included as finance costs in profit or loss.

Financial guarantee contract liabilities

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payments when due in accordance with the terms of a debt instrument.

Financial guarantee contract liabilities are measured initially at their fair values and, if not designated as at fair value through profit or loss and do not arise from a transfer of a financial asset, are measured subsequently at the higher of:

– the amount of the loss allowance determined in accordance with IFRS 9; and

– the amount recognised initially less, when appropriate, cumulative amortisation recognised in accordance with the principles of IFRS 15.

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.

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short-term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired.

For the purpose of the consolidated statement of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, which are not restricted as to use.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions and contingent liabilities

A provision is recognised when a present obligation (legal or constructive) has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

When the effect of discounting is material, the amount recognised for a provision is the present value at the end of the reporting period of the future expenditure expected to be required to settle the obligation. The increase in the discounted present value amount arising from the passage of time is included in "Finance costs" in profit or loss.

Provisions for the Group's obligations for rehabilitation are based on estimates of required expenditure at the mines in accordance with the rules and regulations of Malaysia. The obligation generally arises when the asset is installed or the ground environment is disturbed at the production location. The Group estimates its liabilities for final rehabilitation and mine closure based upon detailed calculations of the amount and timing of the future cash expenditure to perform the required work. Spending estimates are escalated for inflation, then discounted at a discount rate that reflects current market assessments of the time value of money and the risks specific to the liability such that the amount of provision reflects the present value of the expenditure expected to be required to settle the obligation. When the liability is initially recognised, the present value of the estimated cost is capitalised by increasing the carrying amount of the related mining infrastructure.

Over time, the discounted liability is increased for the change in the present value based on the appropriate discount rate. The periodic unwinding of the discount is recognised within "Finance costs" in profit or loss. The asset is depreciated using the straight-line method over its expected life and the liability is accreted to the projected expenditure date. Additional disturbances or changes in estimates (such as mine plan revisions, changes in estimated costs, or changes in timing of the performance of reclamation activities) will be recognised as additions or charges to the corresponding assets and rehabilitation liabilities when they occur at the appropriate discount rate.

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax

Income tax comprises current and deferred tax. Income tax relating to items recognised outside profit or loss is recognised outside profit or loss, either in other comprehensive income or directly in equity.

Current tax assets and liabilities are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period, taking into consideration interpretations and practices prevailing in the countries in which the Group operates.

Deferred tax is provided, using the liability method, on all temporary differences at the end of the reporting period between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred tax liabilities are recognised for all taxable temporary differences, except:

- when the deferred tax liability arises from the initial recognition of goodwill or an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, when the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred tax assets are recognised for all deductible temporary differences, the carryforward of unused tax credits and any unused tax losses. Deferred tax assets are recognised to the extent that it is probable that taxable profit will be available against which the deductible temporary differences, and the carryforward of unused tax credits and unused tax losses can be utilised, except:

- when the deferred tax asset relating to the deductible temporary differences arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss;

- in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint arrangements, deferred tax assets are only recognised to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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 profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred taxes relate to the same taxable entity and the same taxation authority.

Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Accounting policies applied from 1 January 2018

Revenue is recognised when control over the goods is transferred to the customer. Revenue is measured at the fair value of the consideration received and receivable, and represents amounts receivable for goods supplied, stated net of value added tax or other sales taxes and is after deduction of any trade discounts. The Group recognises revenue when the amount of revenue and costs can be measured reliably; the recovery of the consideration is probable; and when specific criteria have been met for each of the Group's activities, as described below. The Group has generally concluded that it is the principal in its revenue arrangements because it typically controls the goods before transferring them to the customer.

Sale of goods

Revenue from sales of goods is recognised at the point in time that the control of the goods has passed to the customers. Customers obtain control of the goods supplied when related risks and rewards of ownership were transferred under the delivery terms of the relevant contracts with the customers.

Interest income

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

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue and other income (continued)

Accounting policies applied until 31 December 2017

Revenue is recognised when it is probable that the economic benefits will flow to the Group and when the revenue can be measured reliably, on the following bases:

(a) from the sale of goods, when the significant risks and rewards of ownership have been transferred to the buyer, provided that the Group maintains neither managerial involvement to the degree usually associated with ownership, nor effective control over the goods sold; and

(b) interest income, on an accrual basis using the effective interest method by applying the rate that exactly discounts the estimated future cash receipts over the expected life of the financial instrument or a shorter period, when appropriate, to the net carrying amount of the financial asset.

Pension schemes

Mainland China

The employees in Mainland China are required to participate in a central defined pension scheme managed by the local municipal government of the areas in Mainland China in which they operate. These subsidiaries are required to contribute a certain percentage of the relevant part of the payroll of their employees to the central pension scheme. The Group has no obligation for the payment of retirement benefits beyond the annual contributions. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

Hong Kong

The Group participates in a defined contribution Mandatory Provident Fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for its employees in Hong Kong. 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 contribution vests fully with the employees when contribution into the MPF Scheme.

Malaysia

The Group makes contributions to the Employee Provident Fund in Malaysia, a defined contribution pension scheme. Contributions to this scheme are recognised as an expense in the period in which the related service is performed.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, i.e., assets that necessarily take a substantial period of time to get ready for their intended use or sale, are capitalised as part of the cost of those assets. The capitalisation of such borrowing costs ceases when the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs capitalised. All other borrowing costs are expensed in the period in which they are incurred. Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds.

Dividends

Final dividends are recognised as a liability when they are approved by the shareholders in a general meeting.

Interim dividends are simultaneously proposed and declared, because the Company's memorandum and articles of association grant the Directors the authority to declare interim dividends. Consequently, interim dividends are recognised immediately as a liability when they are proposed and declared.

Foreign currencies

These consolidated financial statements are presented in USD, which is the Company's functional currency. Each entity in the Group determines its own functional currency and items included in the financial statements of each entity are measured using that functional currency. Foreign currency transactions recorded by the entities in the Group are initially recorded using their respective functional currency rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the functional currency rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in profit or loss.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was measured. The gain or loss arising on translation of a non-monetary item measured at fair value is treated in line with the recognition of the gain or loss on change in fair value of the item (i.e., translation difference on the item whose fair value gain or loss is recognised in other comprehensive income or profit or loss is also recognised in other comprehensive income or profit or loss, respectively).

The functional currencies of certain subsidiaries are currencies other than USD. As at the end of the reporting period, the assets and liabilities of these entities are translated into USD at the exchange rates prevailing at the end of the reporting period and their profits or losses are translated into USD at the weighted average exchange rates for the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

Foreign currencies (continued)

The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the closing rate.

Segment reporting

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

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

NOTES TO FINANCIAL STATEMENTS

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3. SIGNIFICANT ACCOUNTING ESTIMATES

The preparation of the Group's financial statements require management to make estimates and assumptions that affect the reported amounts of revenue, expenses, assets and liabilities, and their accompanying disclosures, and the disclosure of contingent liabilities. Uncertainty about these significant assumptions and estimates could result in outcomes that could require a material adjustment to the carrying amounts of the assets and liabilities affected in the future.

Estimation uncertainty

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

(a) Going concern

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends upon the success of the Group in generating sufficient cash flows from operations to meet its financial obligations as and when they fall due in the foreseeable future. Details are set out in note 2.1 above.

(b) Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value-in-use of the cash-generating units to which the goodwill is allocated. Estimating the value-in-use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2018 was USD6,649,000 (2017: USD6,765,000). There was no impairment provision for goodwill during the two years ended 31 December 2018 and 2017. Further details are given in note 17.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(c) Impairment of receivables

For trade receivables, the Group applies the simplified approach to provide for ECLs as prescribed by IFRS 9, which requires the use of the lifetime expected loss allowance for all trade receivables. The loss allowance for financial assets are based on assumptions about risk of default and expected loss rates. The Group uses judgement in making these assumptions and selecting the inputs to the impairment calculation, based on the Group's past history, existing market conditions as well as forward looking estimates at the end of each reporting period.

The provision of ECLs is sensitive to changes in circumstances and of forecast economic conditions. The Group's historical credit loss experience and forecast of economic conditions may also not be representative of customers' actual default in the future. If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

In the prior year, the impairment of receivables was assessed 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

There was no impairment provision for receivables as at 31 December 2018 and 2017.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(d) *Useful lives of property, plant and equipment*

The Group estimates useful lives and related depreciation charges for its items of property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of items of property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovations and actions of its competitors. Management will increase the depreciation charge where useful lives are less than previously estimated, or it will record an impairment provision for technically obsolete assets that have been abandoned. The carrying amount of property, plant and equipment as at 31 December 2018 was USD3,352,000 (2017: USD4,327,000).

(e) *Mine reserves*

Engineering estimates of the Group's mine reserves are inherently imprecise and represent only approximate amounts because of the significant judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated mine reserves can be designated as "proved" and "probable". Proved and probable mine reserve estimates are updated at regular intervals taking into account recent production and technical information about each mine. In addition, as prices and cost levels change from year to year, the estimate of proved and probable mine reserves also changes. This change is considered a change in estimates for accounting purposes and is reflected on a prospective basis in both depreciation and amortisation rates calculated on the UOP method and the time period for discounting the rehabilitation provision. Changes in the estimate of mine reserves are also taken into account in impairment assessments of non-current assets.

(f) *Fair value of unlisted equity investments*

As at 31 December 2018, the Group's unlisted equity investments with carrying amount of USD15,267,000 (2017: USD23,808,000) are measured at fair value based on the market approach of valuation. This valuation approach requires the Group to consider prices recently paid for similar assets, with adjustments made to market prices to reflect condition and utility of the investments relative to the market comparatives if necessary and appropriate, hence they are subject to uncertainty.

Further details are included in notes 16 and 36 to the consolidated financial statements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

3. SIGNIFICANT ACCOUNTING ESTIMATES (continued)

Estimation uncertainty (continued)

(g) Provision for rehabilitation

The Group recognises the provision for the rehabilitation of each site. The provision recognised represents management's best estimate of the present value of the future costs required. Significant estimates and assumptions are made in determining the amount of rehabilitation provision. Those estimates and assumptions deal with uncertainties such as: requirements of the relevant legal and regulatory framework; the magnitude of possible contamination and the timing, extent and costs of required rehabilitation activity. These uncertainties may result in future actual expenditure differing from the amounts currently provided.

The provision recognised for each site is periodically reviewed and updated based on the facts and circumstances available at the time. Changes to the estimated future costs for operating sites are recognised in the consolidated statement of financial position by adjusting both the rehabilitation asset and provision. Such changes give rise to a change in future depreciation and financial charges. For closed sites, changes to estimated future costs are recognised immediately in profit or loss. The carrying amount of provision for rehabilitation as at 31 December 2018 was USD409,000 (2017: USD380,000).

(h) Income tax

Significant judgement is involved in determining the group-wide tax provision for income taxes. There are certain transactions and computations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for expected tax issues based on estimates of whether additional taxes will be due. Where the final tax outcome for these matters is different from the amounts that were initially recognised, such differences will impact the income tax and deferred tax provisions in the period in which such determination is made.

(i) Impairment of non-financial assets (other than goodwill)

The Group assesses whether there are any indicators of impairment for all non-financial assets at the end of each reporting period. Definite life non-financial assets are tested for impairment when there are indicators that the carrying amounts may not be recoverable. Impairment exists when the carrying value of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal to sell is based on available data from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management must estimate the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION

For management purposes, the Group is organised into business units based on their products and services and has four reportable operating segments as follows:

(a) the iron ore mining and processing operation segment comprises iron ore mining and processing and the sale of iron ore products to iron ore trading companies in Malaysia;

(b) the sponge iron production and selling operation segment comprises production and sale of sponge iron to steel manufacturers in Malaysia and Indonesia;

(c) the commercial trade segment comprises purchases of iron ore products, crude oil and other commodities and then sales to steel manufacturers and/or their respective purchasing agents in Mainland China and other commodity trading companies; and

(d) the financing operation segment comprises the investments in unlisted enterprises principally engaging in financing related businesses, and the provision of loans to third parties.

No operating segments have been aggregated to form the above reportable operating segments.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resource allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income on bank deposits, foreign currency gains/losses as well as head office, corporate and other unallocated expenses are excluded from such measurement.

Segment assets exclude deferred tax assets, cash and cash equivalents and other unallocated corporate assets as these assets are managed on a group basis.

Segment liabilities exclude tax payable, deferred tax liabilities and other unallocated corporate liabilities as these liabilities are managed on a group basis.

Intersegment sales and transfers are transacted with reference to the selling prices used for sales made to third parties at the then prevailing market prices.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

	Iron ore mining and processing operation USD'000	Sponge iron production and selling operation USD'000	Commercial trade USD'000	Financing operation USD'000	Total USD'000
SEGMENT REVENUE	1,553	–	1,445,455	–	1,447,008
SEGMENT RESULTS	(941)	(1)	5,485	1,700	6,243
Reconciliation:					
Interest income on bank deposits					1
Foreign currency losses, net					(326)
Corporate and other unallocated expenses					(2,651)
Profit before tax					3,267
SEGMENT ASSETS	22,625	49,999	205,081	24,057	301,762
Reconciliation:					
Cash and cash equivalents					183
Deferred tax assets					13
Corporate and other unallocated assets					659
Total assets					302,617
SEGMENT LIABILITIES	1,566	–	141,192	–	142,758
Reconciliation:					
Tax payable					3,910
Deferred tax liabilities					2,910
Corporate and other unallocated liabilities					228
Total liabilities					149,806
OTHER SEGMENT INFORMATION					
Interest income	–	–	161	1,700	1,861
Finance costs	(29)	–	(10,028)	–	(10,057)
Depreciation and amortisation	(774)	–	–	–	(774)
Write-off of other receivable	–	–	(314)	–	(314)
Share of loss of an associate	–	(1)	–	–	(1)
Investment in an associate	–	49,999	–	–	49,999

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

	Iron ore mining and processing operation USD'000	Sponge iron production and selling operation USD'000	Commercial trade USD'000	Financing operation USD'000	Total USD'000
SEGMENT REVENUE	–	–	1,104,616	–	1,104,616
SEGMENT RESULTS	(629)	–	4,185	2,197	5,753
Reconciliation:					
Interest income on bank deposits					1
Foreign currency gains, net					757
Corporate and other unallocated expenses					(2,496)
Profit before tax					4,015
SEGMENT ASSETS	30,154	–	237,192	32,308	299,654
Reconciliation:					
Cash and cash equivalents					2,085
Deferred tax assets					25
Corporate and other unallocated assets					677
Total assets					302,441
SEGMENT LIABILITIES	1,589	–	184,912	–	186,501
Reconciliation:					
Tax payable					3,590
Deferred tax liabilities					4,437
Corporate and other unallocated liabilities					176
Total liabilities					194,704
OTHER SEGMENT INFORMATION					
Interest income	413	–	–	2,197	2,610
Finance costs	(29)	–	(5,415)	–	(5,444)
Depreciation and amortisation	(757)	–	–	–	(757)
Write-off of other receivable	–	–	–	–	–
Share of loss of an associate	–	–	–	–	–
Investment in an associate	–	–	–	–	–

NOTES TO FINANCIAL STATEMENTS

31 December 2018

4. OPERATING SEGMENT INFORMATION (continued)

Revenue from major products

The Group's revenue from its major products are disclosed in note 5.

Geographical information

The following table sets out information about the geographical locations of the Group's revenue from external customers during the year. The geographical locations of customers are determined based on the locations designated by the customers at which the goods were delivered or services were rendered.

	2018	2017
	USD'000	USD'000
Domestic – Malaysia	**1,553**	–
Overseas – Netherlands	**–**	1,692
Overseas – South Korea	**177,551**	23,303
Overseas – The People's Republic of China ("PRC")	**1,267,904**	1,079,621
	1,447,008	1,104,616

As at 31 December 2018, except for certain office furniture and motor vehicles located in Hong Kong and Mainland China with the respective net carrying amounts of USD13,000 (2017: USD30,000) and USD151,000 (2017: USD277,000), all of the Group's non-current assets excluding financial instruments and deferred tax assets were located in Malaysia, place of domicile of the Group's principal subsidiary, Capture Advance.

Information about major customers

Included in revenue arising from the commercial trade segment are revenue from each of the major customers, which amounted to 10% or more of the total revenue, as set out below:

	2018	2017
	USD'000	USD'000
Customer A	**413,219**	–
Customer B	**385,904**	157,748
Customer C	**224,405**	326,836
Customer D	**143,196**	*
Customer E	*	204,742

* Less than 10%

NOTES TO FINANCIAL STATEMENTS

31 December 2018

5. REVENUE

The Group derives its revenue from contracts with customers for the transfer of goods at a point in time in the following major lines of business:

	2018 USD'000	2017 USD'000
Disaggregation of revenue		
Iron ore products, crude oil and other commodities – commercial trade	**1,445,455**	1,104,616
Iron ore products – iron ore mining and processing operation	**1,553**	–
	1,447,008	1,104,616

6. FINANCE COSTS

An analysis of finance costs is as follows:

	2018 USD'000	2017 USD'000
Interest on bank loans	**4,120**	1,699
Interest on notes	**5,907**	3,716
Interest on hire purchase arrangements	**1**	2
Unwinding of discount on provision (note 26)	**29**	27
	10,057	5,444

NOTES TO FINANCIAL STATEMENTS

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7. PROFIT BEFORE TAX

The Group's profit before tax was arrived at after charging/(crediting):

	Notes	2018 USD'000	2017 USD'000
Cost of inventories recognised as expense		**1,428,437**	1,088,089
Employee benefit expense (including directors' and chief executive's remuneration (note 8)):			
Wages and salaries		**1,559**	1,813
Pension scheme contributions			
– Defined contribution schemes		**76**	54
Welfare and other benefits		**156**	229
Total employee benefit expense		**1,791**	2,096
Depreciation	13	**896**	893
Amortisation of intangible assets	14	**23**	23
Depreciation and amortisation expenses		**919**	916
Operating lease payments – minimum lease payments in respect of:			
Motor vehicles		**113**	111
Office		**226**	205
		339	316
Auditor's remuneration			
– Audit services			
current year		**232**	186
under-provision in prior year		**–**	8
– Other services		**13**	39
		245	233
Write-off of other receivable***		**314**	–
Interest income**		**(1,862)**	(2,611)
Net foreign currency losses/(gains)*		**326**	(757)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

7. PROFIT BEFORE TAX (continued)

* The net amount of foreign currency losses of USD326,000 for the year ended 31 December 2018 is included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2018. The net amount of foreign currency gains of USD757,000 is included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2017.

** This item is included in "Other income and gains" in the consolidated statement of profit or loss and other comprehensive income.

*** This item is included in "Other expenses" in the consolidated statement of profit or loss and other comprehensive income.

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES

Directors' and chief executive's remuneration for the year, disclosed pursuant to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("Listing Rules"), section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation, is as follows:

	2018 **USD'000**	2017 USD'000
Fees	**539**	261
Other emoluments:		
– Salaries, allowances and benefits in kind	**139**	402
– Retirement scheme contributions	**21**	13
	160	415
	699	676

NOTES TO FINANCIAL STATEMENTS

31 December 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(a) Independent non-executive directors

The fees paid to independent non-executive directors during the year were as follows:

	2018	2017
	USD'000	USD'000
Mr. Leung Yiu Cho	**31**	11
Mr. Kong Chi Mo	**–**	19
Dr. Li Zhongquan	**13**	13
Dr. Wang Ling	**13**	13
	57	56

There were no other emoluments payable to the independent non-executive directors during the year (2017: Nil).

(b) Executive directors and the chief executive

	Fees	**Salaries, allowances and benefits in kind**	**Retirement scheme contributions**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**
2018				
Mr. Li Yang (i)	**260**	**101**	**7**	**368**
Ms. Xu Mijia	**60**	**12**	**7**	**79**
Mr. Wang Er	**58**	**–**	**–**	**58**
Ms. Li Xiaolan	**104**	**26**	**7**	**137**
	482	**139**	**21**	**642**

NOTES TO FINANCIAL STATEMENTS

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8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(b) Executive directors and the chief executive (continued)

	Fees USD'000	Salaries, allowances and benefits in kind USD'000	Retirement scheme contributions USD'000	Total USD'000
2017				
Mr. Li Yang[(i)]	129	216	4	349
Ms. Xu Mijia	14	62	4	80
Mr. Wang Er	20	38	–	58
Ms. Li Xiaolan	42	86	5	133
	205	402	13	620

(i) Mr. Li Yang who acts as an executive director of the Company is also the chief executive officer of the Company.

There was no arrangement under which a director or the chief executive waived or agreed to waive any remuneration during the year (2017: Nil).

(c) Five highest paid employees

The five highest paid employees during the year included three (2017: three) directors (including the chief executive officer who is also an executive director of the Company), details of whose remuneration are set out above. Details of the remuneration for the year of the remaining two (2017: two) highest paid employees who are neither a director nor chief executive of the Company are as follows:

	2018 USD'000	2017 USD'000
Salaries, allowances and benefits in kind	**202**	341
Retirement scheme contributions	**3**	4
	205	345

NOTES TO FINANCIAL STATEMENTS

31 December 2018

8. DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION AND FIVE HIGHEST PAID EMPLOYEES (continued)

(c) Five highest paid employees (continued)

The number of non-director and non-chief executive highest paid employees whose remuneration fell within the following bands is as follows:

	Number of employees	
	2018	2017
Nil to HKD1,000,000	**2**	1
HKD1,000,001 to HKD2,000,000	**–**	1
	2	2

9. INCOME TAX

Pursuant to the rules and regulations of the Cayman Islands and BVI, the Group was not subject to any income tax in the Cayman Islands and BVI.

No provision for Singapore and PRC corporate income tax has been provided as the Company's subsidiaries located in Singapore and Mainland China had no assessable profits derived or earned in Mainland China and Singapore during the year.

Pursuant to the income tax rules and regulations in Malaysia, the subsidiaries located in Malaysia are liable to Malaysia corporate income tax at a rate of 24% (2017: 24%) on the assessable profits generated during the year.

Hong Kong profits tax has been provided for the year ended 31 December 2018 at the rate of 8.25% (2017: 16.5%) of the first HK$2,000,000 and 16.5% (2017: 16.5%) of the remaining estimated assessable profits arising in Hong Kong during the year.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

9. INCOME TAX (continued)

The major components of income tax expense are as follows:

	2018 USD'000	2017 USD'000
Current tax – Hong Kong		
Provision for the year	**969**	1,108
Over provision in respect of prior year	**(229)**	(696)
	740	412
Deferred tax (note 25)	**(7)**	188
Total tax charge for the year	**733**	600

A reconciliation of income tax expense applicable to profit before tax at the statutory rates for the jurisdictions in which the Company and its subsidiaries are domiciled to the tax expense at the effective tax rates is as follows:

	2018 USD'000	2017 USD'000
Profit before tax	**3,267**	4,015
Add: Share of loss of an associate	**1**	–
	3,268	4,015
Tax at Hong Kong statutory tax rate of 16.5% (2017: 16.5%)	**695**	766
Tax at Malaysia statutory tax rate of 24% (2017: 24%)	**(226)**	(151)
Benefit of tax losses not recognised	**269**	–
Tax effect of utilisation of tax losses not previously recognised	**(7)**	(57)
Tax effect of income not subject to tax	**(839)**	(744)
Tax effect of expenses not deductible for tax	**1,091**	1,274
Over provision in prior year	**(229)**	(476)
Others	**(21)**	(12)
Tax charge at the Group's effective tax rate	**733**	600

NOTES TO FINANCIAL STATEMENTS

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10. EARNINGS PER SHARE ATTRIBUTABLE TO ORDINARY EQUITY HOLDERS OF THE COMPANY

The calculation of the basic earnings per share amounts is based on the profit for the year attributable to ordinary equity holders of the Company, and the number of ordinary shares of 1,500,000,000 (2017: 1,500,000,000) in issue during the year.

No adjustment has been made to the basic earnings per share amounts presented for the years ended 31 December 2018 and 2017 in respect of a dilution as the Group had no potentially dilutive ordinary shares in issue during those years.

11. DISPOSAL OF INTEREST IN A SUBSIDIARY WITHOUT LOSS OF CONTROL

During the year, the Group disposed of a 9.12% interest in Pacific Mining Resources Sdn. Bhd. ("Pacific Mining") as consideration of USD50,000,000 in exchange for a 33.33% equity interest in Pembinaan Sponge Iron Sdn. Bhd. (the "Partial Disposal"). The Partial Disposal did not result in a loss of control by the Group in Pacific Mining which remains as a subsidiary of the Group after the Partial Disposal. After the Partial Disposal, the Group's ownership interest in Pacific Mining has decreased from 100% to 90.88%. The effect of the Partial Disposal attributable to the shareholders of the Company is summarised as follows:

	USD'000
Consideration received from non-controlling interest	50,000
Less: carrying amount of non-controlling interest disposed of	(1,713)
Gain on disposal credited to other reserve	48,287

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12. MATERIAL NON-WHOLLY OWNED SUBSIDIARY

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

Name of subsidiary	Principal place of business and place of incorporation	Proportion of ownership interest held by non-controlling interests		Profit/(loss) allocated to non-controlling interests for the year		Accumulated non-controlling interests	
		31/12/2018	31/12/2017	**31/12/2018 USD'000**	31/12/2017 USD'000	**31/12/2018 USD'000**	31/12/2017 USD'000
Pacific Mining Resources Sdn. Bhd. ("Pacific Mining")	Malaysia	**9.12%**	–	**–**	–	**1,713**	–

During the year, the Group disposed of a 9.12% of its interest in Pacific Mining in exchange for the Group's subscription of 33.33% issued shares of Pembinaan Sponge Iron Sdn. Bhd.(note 11). An amount of USD1,713,000 (being the proportionate share of the carrying amount of net assets in Pacific Mining) has been transferred to non-controlling interests upon the disposal of the above interest in Pacific Mining.

The summarised financial information of Pacific Mining is provided below. This information is based on amounts before inter-company eliminations.

	As at 31 December 2018 USD'000
Current assets	**81**
Non-current assets	**19,329**
Current liabilities	**(627)**
Non-current liabilities	**–**
Total equity	**18,783**
Attributable to:	
Owners of the Company	**17,070**
Non-controlling interests	**1,713**

NOTES TO FINANCIAL STATEMENTS

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12. MATERIAL NON-WHOLLY OWNED SUBSIDIARY (continued)

	Year ended 31 December 2018 USD'000
Revenue	–
Loss attributable to owners of the Company	(7)
Loss attributable to the non-controlling interests	–
Loss for the year	(7)
Other comprehensive income/(loss) attributable to owners of the Company	–
Other comprehensive income/(loss) attributable to the non-controlling interests	–
Other comprehensive income for the year	–
Total comprehensive loss attributable to owners of the Company	(7)
Total comprehensive income/(loss) attributable to the non-controlling interests	–
Total comprehensive loss for the year	(7)
Dividends paid to non-controlling interests	–

	Year ended 31 December 2018 USD'000
Net cash inflow/(outflow) from operating activities	–
Net cash inflow/(outflow) from investing activities	–
Net cash inflow/(outflow) from financing activities	–
Net cash inflow/(outflow)	–

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT

	Mine properties USD'000	Machinery USD'000	Motor vehicles USD'000	Others USD'000	Total USD'000
31 December 2018					
Cost:					
At 1 January 2018	**2,240**	**5,709**	**931**	**536**	**9,416**
Additions	**–**	**–**	**–**	**2**	**2**
Exchange realignment	**(42)**	**(116)**	**(7)**	**(7)**	**(172)**
At 31 December 2018	**2,198**	**5,593**	**924**	**531**	**9,246**
Accumulated depreciation:					
At 1 January 2018	**1,053**	**3,274**	**554**	**208**	**5,089**
Provided for the year	**246**	**491**	**127**	**32**	**896**
Exchange realignment	**(16)**	**(67)**	**(7)**	**(1)**	**(91)**
At 31 December 2018	**1,283**	**3,698**	**674**	**239**	**5,894**
Net carrying amount:					
At 1 January 2018	**1,187**	**2,435**	**377**	**328**	**4,327**
At 31 December 2018	**915**	**1,895**	**250**	**292**	**3,352**
31 December 2017					
Cost:					
At 1 January 2017	2,026	5,113	896	494	8,529
Additions	–	–	–	6	6
Exchange realignment	214	596	35	36	881
At 31 December 2017	2,240	5,709	931	536	9,416
Accumulated depreciation:					
At 1 January 2017	728	2,440	393	152	3,713
Provided for the year	238	480	127	48	893
Exchange realignment	87	354	34	8	483
At 31 December 2017	1,053	3,274	554	208	5,089
Net carrying amount:					
At 1 January 2017	1,298	2,673	503	342	4,816
At 31 December 2017	1,187	2,435	377	328	4,327

NOTES TO FINANCIAL STATEMENTS

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13. PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) Motor vehicles with an aggregate net carrying amount of USD1,000 (2017: USD6,000) were held under hire purchase arrangements entered into by the Group (note 23(b)) at 31 December 2018.

(b) A motor vehicle with a net carrying amount of USD73,000 (2017: USD171,000) was held under custody of Chengdu Hande Investment Management Co., Ltd. ("Chengdu Hande") as at 31 December 2018. The largest shareholder of Chengdu Hande is the father of Mr. Li Yang, the controlling shareholder of the Group.

(c) As at 31 December 2018, the gross carrying amount of fully depreciated assets that were still in use totalled USD1,555,000 (2017: USD1,584,000).

14. MINING RIGHTS AND RESERVES

	2018 **USD'000**	2017 USD'000
Cost:		
At 1 January	**13,141**	11,968
Exchange realignment	**(229)**	1,173
At 31 December	**12,912**	13,141
Accumulated amortisation:		
At 1 January	**209**	186
Provided for the year	**23**	23
At 31 December	**232**	209
Net carrying amount:		
At 1 January	**12,932**	11,782
At 31 December	**12,680**	12,932

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15. INVESTMENT IN AN ASSOCIATE

Pursuant to a joint venture agreement (the "Agreement") dated 14 December 2018 between Best Sparkle Development Limited ("Best Sparkle"), an indirect wholly-owned subsidiary of the Company, and an independent third party, both parties agreed to establish a joint venture company (the JV Company") in Malaysia. In accordance with the Agreement, Best Sparkle has subscribed 33.33% issued shares of the JV Company at a consideration of USD50,000,000 which was satisfied by contributing 9.12% of the issued shares of Pacific Mining Resources Sdn. Bhd., a subsidiary of Best Sparkle. The JV Company was incorporated on 21 December 2018.

The Group's interest in the JV Company is accounted for as investment in an associate using the equity method in the consolidated financial statements as set out in the Group's accounting policies in note 2.4. Particulars of the associate at the end of the reporting period are as follows:

Name of associate	Principal activity	Place of incorporation and principal place of business	Proportion of ownership interest held by the Group	
			31/12/2018	31/12/2017
Pembinaan Sponge Iron Sdn. Bhd.	Not yet commenced business	Malaysia	**33.33%**	N/A

The above associate is an unlisted entity in Malaysia whose quoted market price is not available.

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15. INVESTMENT IN AN ASSOCIATE (continued)

Summarised financial information in respect of the Group's associate is set out below. The summarised financial information of the associate, adjusted for any differences in accounting policies where appropriate, and reconciled to the carrying amount in the consolidated financial statement, are disclosed below:

	As at 31 December 2018 USD'000
Current assets	**20,000**
Non-current assets	**130,000**
Current liabilities	**(3)**
Non-current liabilities	**–**
Equity	**149,997**
The Group's effective interest	**33.33%**
The Group's share of net assets of the associate	**49,999**
Goodwill	**–**
Carrying amount of the Group's investment in the associate	**49,999**

	Period from 21 December 2018 (Date of incorporation) to 31 December 2018 USD'000
Revenue	–
Loss for the period	(3)
Other comprehensive income/(loss) for the period	–
Total comprehensive loss for the period	(3)
The Group's effective interest	33.33%
The Group's share of loss of the associate	(1)
Dividends received from the associate during the period	–

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16. FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	2018 **USD'000**	2017 USD'000
Unlisted equity investments, at fair value	**15,267**	23,808

The movements of the unlisted equity investments are as follows:

	2018 **USD'000**	2017 USD'000
At 1 January	**23,808**	23,884
Total unrealized losses recognized in other comprehensive income	**(8,541)**	(76)
At 31 December	**15,267**	23,808

As at 31 December 2017, the Group's unlisted equity investments were classified as available-for-sale investments under IAS 39. Upon the initial application of IFRS 9, these investments have been reclassified as financial assets at FVTOCI.

The Group's unlisted equity investments are not held for trading. Instead, they are held for long-term strategic purposes. Accordingly, the Directors have elected to designate these investments as at FVTOCI as they believe that recognizing short-term fluctuations in these investments' fair values in profit or loss would not be consistent with the Group's strategy of holding these investments for long-term purposes and realizing their performance potential in the long run.

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17. GOODWILL

	USD'000
Cost and net carrying amount at 1 January 2017	6,172
Exchange realignment	593
Cost and net carrying amount at 31 December 2017 and 1 January 2018	6,765
Exchange realignment	(116)
Cost and net carrying amount at 31 December 2018	6,649

Goodwill acquired through business combinations is allocated to the iron ore cash-generating unit located at Ibam Mine ("Ibam Mine CGU") for impairment testing. During the year, part of the issued shares of Pacific Mining which forms part of the Ibam Mine CGU was disposed of in exchange for the Group's subscription of the 33.33% of the shares of Pembinaan Sponge Iron Sdn. Bhd. (which has been accounted for as investment in an associate by the Group and represents another cash-generating unit, i.e. the sponge iron cash-generating unit ("Sponge Iron CGU")), the goodwill associated with that part of the Ibam Mine CGU disposed of is allocated to the Sponge Iron CGU. The following is a summary of goodwill allocation for each cash-generating unit:

	Ibam Mine CGU USD'000	Sponge Iron CGU USD'000	Total USD'000
Balance at 1 January 2018	**6,765**	**–**	**6,765**
Re-allocation of goodwill	**(606)**	**606**	**–**
Exchange realignment	**(116)**	**–**	**(116)**
Balance at 31 December 2018	**6,043**	**606**	**6,649**

NOTES TO FINANCIAL STATEMENTS

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17. GOODWILL (continued)

Impairment testing of goodwill

The recoverable amount of a cash-generating unit ("CGU") is determined based on value-in-use calculations. These calculations use pre-tax cash flow projections based on financial plans approved by senior management covering a five-year period. Cash flows beyond the five-year period are extrapolated using the estimated growth rates stated below. The long-term growth rates of the CGUs do not exceed the long-term average growth rate for the iron ore business and the sponge iron business in which the CGU operates.

For each of the Group's CGU, the key assumptions, long-term growth rates and discount rates used in the value-in-use calculations in 2018 are as follows:

	Ibam Mine CGU	**Sponge Iron CGU**
Production and sales volume	Expected to increase from 80,000 tonnes in 2019 to approximately 3,514,000 tonnes in 2023	Expected to increase from 60,000 tonnes in 2019 to 1,500,000 tonnes in 2023
Sales price (% annual growth rate)	3.0% – 7.7%	0.0%
Gross margin (% of revenue)	21.7% – 27.3%	23.0% – 31.4%
Long-term growth rate	3%	3%
Pre-tax discount rate	21.05%	21.05%

For each of the Group's CGU, the key assumptions, long-term growth rates and discount rates used in the value-in-use calculations in 2017 are as follows:

	Ibam Mine CGU	**Sponge Iron CGU**
Production and sales volume	Expected to increase from 100,000 tonnes in 2018 to 1,280,000 in 2022	N/A
Sales price (% annual growth rate)	0.0% – 3.0%	N/A
Gross margin (% of revenue)	14.7% – 26.4%	N/A
Long-term growth rate	3%	N/A
Pre-tax discount rate	19.83%	N/A

NOTES TO FINANCIAL STATEMENTS

31 December 2018

17. GOODWILL (continued)

Impairment testing of goodwill (continued)

Management has determined the values assigned to each of the above key assumptions as follows:

Assumption	**Approach used to determining values**
Production and sales volume	Estimated production and sales volume over the five-year forecast period is based on past performance and/or management's expectations of the future market development, taking into account the proved and probable reserves and resource estimates of the mine, the existing production capacity, the cost of development of the infrastructure necessary to increase the production capacity to meet the forecast increase in production and sales volume.
Sales price	Average annual growth rate of sales price over the five-year forecast period is based on management's industry experience and historic price trends and includes inflation forecasts for the relevant territory.
Gross margin	Based on the average production costs achieved in the recent years, adjusted for management's expectations for possible change in the production costs and estimated market prices.
Long-term growth rate	This is the weighted average growth rate used to extrapolate cash flows beyond the budget period.
Pre-tax discount rate	Reflect specific risks relating to the relevant CGUs and the countries in which they operate.

The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amounts are based would not cause the carrying amounts to exceed their respective recoverable amounts of the Ibam Mine CGU and the Sponge Iron CGU. As at 31 December 2018 and 31 December 2017, the Directors determined that there was no impairment of goodwill.

NOTES TO FINANCIAL STATEMENTS

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18. TRADE RECEIVABLES

An aged analysis of the trade receivables as at the end of the reporting period, based on the invoice date, is as follows:

	2018	2017
	USD'000	USD'000
Within 3 months	**141,359**	128,712
3 to 6 months	**63,734**	65,764
	205,093	194,476

The Group normally accepts settlement by way of irrevocable letter of credit or telegraphic transfer. During the year, the Group granted credit periods of three to four months to its major customers. Overdue balances are reviewed regularly by senior management. The Group does not hold any collateral or other credit enhancements over its trade receivable balances. Trade receivables are non-interest-bearing.

As at 31 December 2018, none of the Group's trade receivables was past due as at the end of the reporting period. In the opinion of the Directors, no credit loss allowance was recognised as the amount of expected credit losses on the Group's trade receivables was insignificant.

As at 31 December 2017, included in the Group's trade receivables balance are debtors with aggregate carrying amount of USD49,724,000 which are past due as at the end of the reporting period for which the Group has not provided for impairment loss as the amount was substantially collected subsequently.

An aged analysis of the trade receivables which are past due but not impaired as at 31 December 2017 is as follows:

	2017
	USD'000
Less than 1 month past due	20,010
Past due more than 1 month but less than 3 months	24,472
Past due more than 3 months	5,242
	49,724

As at 31 December 2018, trade receivables of USD205,081,000 (2017: USD194,476,000) were pledged to banks to secure bank loans (note 23(a)).

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19. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	Notes	2018 USD'000	2017 USD'000
Prepayments in respect of purchase of iron ore	(a)	–	35,592
Other receivables in respect of:			
– disposal of property, plant and equipment	(b)	–	6,438
– interest-bearing loan to a company	(c)	**8,790**	8,500
Other prepayments, deposits and receivables		**591**	369
		9,381	50,899

Notes:

(a) As at 31 December 2017, the Group had prepayments in the aggregate amount of approximately USD35,592,000 made to two suppliers for purchase of iron ores. According to the relevant purchase agreements entered into with the relevant suppliers, the said prepayments are used to deduct the shipment value of iron ore to be provided by the relevant suppliers to the Group for the first half year of 2018.

(b) In December 2015, the Group disposed of some of its machinery in Malaysia ("Disposed Machinery") to an independent third party (the "Buyer") for an aggregate consideration of RM52,300,000 equivalent to approximately USD12,181,000 as at 31 December 2015. According to the agreement entered into between the Group and the Buyer, the aggregate consideration will be settled by two equal instalments before the end of 31 December 2016 and 31 December 2017, respectively. This receivable is secured by the pledge of the Disposed Machinery.

During the year ended 31 December 2016, the Group had received 50% of the consideration. The remaining balance of the consideration amounting to RM26,150,000 equivalent to approximately USD6,438,000 as at 31 December 2017 remained unsettled up to 31 December 2017. On 5 March 2018, the Group entered into a supplemental agreement (the "Supplemental Agreement") with the Buyer to extend the payment term of the remaining consideration to 31 December 2018. The Buyer is required to pay interest on the unsettled balance to the Group at the interest rate of 5% per annum on a quarterly basis.

(c) The balance represents a loan with a principal of USD8,500,000 granted to Shenzhen Wanyuntong Real Estate Development Company Limited (31 December 2017: USD8,500,000) together with the interest receivable thereon. The details of the loan are set out in the announcement dated 24 December 2015. The loan is interest-bearing at 20% per annum and is repayable with interest upon three months' notice by the Group.

NOTES TO FINANCIAL STATEMENTS

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20. CASH AND CASH EQUIVALENTS AND PLEDGED DEPOSITS

	2018 **USD'000**	2017 USD'000
Cash and bank balances	**183**	9,209
Less: pledged deposits*	**–**	(7,124)
Cash and cash equivalents	**183**	2,085

* As at 31 December 2018, (i) bank deposits of USDNil (2017: USD4,865,000) were pledged to secure short-term bank loans granted to the Group (note 23(a)); and (ii) bank deposits of USDNil (2017: USD2,259,000) were pledged for the issuance of irrevocable letter of credit to the Group's suppliers.

The Group's cash and bank balances at the end of each reporting period can be further analysed as follows:

	2018 **USD'000**	2017 USD'000
Cash and bank balances denominated in:		
HKD	**29**	254
USD	**149**	8,947
Other currencies – RM and RMB	**5**	8
	183	9,209

Cash at banks earns interest at floating rates based on daily bank deposit rates. The bank balances are deposited with creditworthy banks with no recent history of default.

21. TRADE PAYABLES

An aged analysis of trade payables as at the end of the reporting period, based on the invoice date, is as follows:

	2018 **USD'000**	2017 USD'000
Within 3 months	**1,953**	26,052
6 months to 12 months	**–**	–
Over 1 year	**–**	26
	1,953	26,078

Trade payables are non-interest-bearing and are normally settled within 1 month.

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22. OTHER PAYABLES AND ACCRUALS

	2018	2017
	USD'000	USD'000
Due to the ultimate holding company (note 35(c))	**60,000**	60,000
Other payables and accruals	**2,384**	3,503
	62,384	63,503

All other payables of the Group are non-interest-bearing and unsecured.

23. INTEREST-BEARING BANK AND OTHER BORROWINGS

		2018			2017		
	Notes	**Effective interest rate (%)**	**Maturity**	**USD'000**	Effective interest rate (%)	Maturity	USD'000
Current							
Bank loans – secured	(a), (d)	**9.44-9.59**	**2019**	**40,946**	2.29-3.89	2018	55,999
Hire purchase arrangements – secured	(b)	**2.47**	**2019**	**7**	2.36-2.47	2018	18
				40,953			56,017
Non-current							
Hire purchase arrangements – secured	(b)			**–**	2.36-2.47	2019-2020	7
				40,953			56,024

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

Analysed into:

	2018 USD'000	2017 USD'000
Bank loans repayable:		
Within one year	**40,946**	55,999
Hire purchase arrangements repayable:		
Within one year	**7**	18
In the second year	**–**	6
In the third to fifth years, inclusive	**–**	1
	7	25
	40,953	56,024

Notes:

(a) As at 31 December 2018, the bank loans of China Bright HK, an indirect wholly-owned subsidiary of the Company, were secured by the trade receivables of USD205,081,000 (note 18), and were guaranteed by the Company and a director of the Company at nil consideration.

As at 31 December 2017, the bank loans of China Bright HK, an indirect wholly-owned subsidiary of the Company, were secured by the pledged bank balances of USD4,865,000 (note 20) and by trade receivables of USD194,476,000 (note 18), and were guaranteed by the Company at nil consideration.

(b) The Group acquired certain of its motor vehicles through hire purchase arrangements, which are classified as finance leases and have remaining lease terms ranging from one to two years. As at 31 December 2018, payables relating to the hire purchase arrangements were secured by the corresponding motor vehicles acquired with an aggregate carrying amount of USD1,000 (2017: USD6,000) (note 13(a)).

(c) Except for the hire purchase arrangements which were denominated in RM and the issued notes with carrying amount of USD19,358,000 as at 31 December 2018 (2017: USD20,882,000) which was denominated in HKD, all borrowings were denominated in USD.

(d) On 10 December 2018, the Group and the lender renegotiated the terms of the bank loans with aggregate carrying amount at the end of the reporting period of USD40,946,000 and agreed a repayment schedule pursuant to which the above bank loans plus interest are to be settled by six instalments with the first instalment repayable in December 2018 and the last instalment repayable in November 2019.

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23. INTEREST-BEARING BANK AND OTHER BORROWINGS (continued)

At 31 December 2018, the total future minimum lease payments under hire purchase arrangements and their present values were as follows:

	Minimum lease payments 2018 USD'000	Minimum lease payments 2017 USD'000	**Present value of minimum lease payments 2018 USD'000**	Present value of minimum lease payments 2017 USD'000
Amounts payable:				
Within one year	**7**	19	**7**	18
In the second year	**–**	6	**–**	6
In the third to fifth years, inclusive	**–**	1	**–**	1
Total minimum hire purchase payments	**7**	26	**7**	25
Future finance charges	**–**	(1)		
Total net hire purchase payables	**7**	25		
Portion classified as current liabilities	**(7)**	(18)		
Non-current portion	**–**	7		

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24. NOTES

	Notes	2018 USD'000	2017 USD'000
Current:			
Note 1 – redemption date falling due within one year	(a)	**19,358**	20,882
Note 2 – redemption date falling due within one year	(b)	**17,929**	–
		37,287	20,882
Non-current:			
Note 2 – redemption date falling due after one year	(b)	**–**	19,810
Total		**37,287**	40,692

Notes:

(a) On 20 September 2016, the Company entered into a subscription agreement with an independent third party institution (the "Noteholder 1") pursuant to which the Company issued the senior guaranteed notes (the "Note 1") in the principal amount of HKD164,865,750 (equivalent to approximately USD21,270,000) with a final redemption date falling 18 months after the date of issue. The net proceeds amounted to approximately USD20,000,000 as at the issue date. The original interest rate for the Note 1 is 12% per annum and should be payable quarterly.

The major terms and conditions of the Note 1 are as follows:

(i) The event of defaults under the Note 1 include, among other things:

– the Company or a wholly-owned subsidiary(ies) of the Company does not remain the direct or indirect beneficial owner of not less than 100% of the issued share capital of (a) China Bright HK; and (b) Pacific Mining, free and clear of any lien, charge, encumbrance, security interest, restriction on voting or transfer or any other claim of any third party;

– the ratio of the total liabilities of the Company to the total assets of the Company exceeds a specified ratio;

– Mr. Li Yang fails to remain as the controlling shareholder (as defined in the Listing Rules) of the Company, or Mr. Li Yang ceases to be the chairman of the Company; and

NOTES TO FINANCIAL STATEMENTS

31 December 2018

24. NOTES (continued)

Notes: (continued)

(a) (continued)

(i) The event of defaults under the Note 1 include, among other things: (continued)

– trading in the Company's shares on the The Stock Exchange of Hong Kong Limited is suspended for more than five (5) consecutive trading days or twenty (20) trading days in any period of twelve (12) months or the closing price per share of the Company shall be less than a specified price during five (5) consecutive trading days.

Upon and at any time after the occurrence of the event of defaults, the Noteholder 1 may give notice to the Company that one or more of the Note 1 shall become immediately due and repayable with all accrued interest.

(ii) Redemption option

The Company may not redeem the Note 1 prior to the final redemption date without the prior written consent of the holders of the Note 1.

(iii) Guarantees

The Note 1 were guaranteed by Cosmo Field, Capture Advantage, Mr. Li Yang and Mr. Li Dongming, who is the father of Mr. Li Yang (note 35(d)).

The Note 1 recognised in the consolidated statement of financial position is calculated as follows:

	USD'000
Carrying amount at 1 January 2017	20,213
Effective interest recognised for the year (note 6)	3,426
Interest paid or payable	(2,587)
Exchange realignment	(170)
Carrying amount at 31 December 2017 and 1 January 2018	20,882
Repayment of principal made during the year	(1,915)
Effective interest recognised for the year (note 6)	4,425
Interest paid or payable	(4,278)
Exchange realignment	244
Carrying amount at 31 December 2018	19,358

NOTES TO FINANCIAL STATEMENTS

31 December 2018

24. NOTES (continued)

Notes: (continued)

(b) On 19 October 2017, the Company entered into a subscription agreement with an independent third party institution (the "Noteholder 2") pursuant to which the Company issued the 7% fixed coupon guaranteed notes (the "Note 2") in the principal amount of USD20,000,000 with a maturity date of two years from the date of issue. The net proceeds amounted to approximately USD19,800,000 as at the issue date. The interest should be payable semi-annually.

The major terms and conditions of the Note 2 are as follows:

(i) The event of defaults under the Note 2 include, among other things:

– Declare, make or pay dividend or other distribution without the prior written consent of the Noteholder 2;

– Any event occurs which has effect of change of control (within the meaning of the Codes on Takeovers and Mergers and Share Buy-backs issued by the Hong Kong Securities and Futures Commission) of the Company, its subsidiaries or Cosmo Field;

– Mr. Li Yang disposes or encumbers any of the Company's shares held by him, ceases to be the single largest shareholder of the Company, or ceases to hold, directly or indirectly, such number of the Company's shares, representing 55% of the entire issued share capital of the Company; and

– There is suspension of trading of the Company's shares on The Stock Exchange of Hong Kong Limited for five (5) consecutive trading days or more for any reason or cessation of trading of the Company's shares on The Stock Exchange of Hong Kong Limited for any reason.

Upon and at any time after the occurrence of the event of defaults, the Noteholder 2 may give notice to the Company that all or any part of the Note 2 shall become immediately due and repayable with all accrued interest.

(ii) Redemption option

The Company may not redeem the Note 2 prior to the final redemption date without the prior written consent of the holders of the Note 2.

(iii) Guarantees and securities

The Note 2 were guaranteed by Cosmo Field and Mr. Li Yang (note 35 (d)) and secured by an aggregate of 172,352,000 shares of the Company.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

24. NOTES (continued)

Notes: (continued)

(b) (continued)

The Note 2 recognised in the consolidated statement of financial position are calculated as follows:

	USD'000
Nominal value of the Note 2	20,000
Issue costs	(200)
Fair value at date of issuance	19,800
Effective interest recognised for the year (note 6)	290
Interest paid or payable	(280)
Carrying amount at 31 December 2017 and 1 January 2018	19,810
Repayment of principal during the year	(2,000)
Effective interest recognised for the year (note 6)	1,482
Interest paid or payable	(1,363)
Carrying amount at 31 December 2018	17,929

(c) According to the relevant subscription agreement, the original final redemption date of the Note 1 falls on 19 March 2018 and on that date, the Company entered into a letter agreement (the "Letter Agreement") with the holder of the Note 1 pursuant to which the holder of the Note 1 has agreed to extend the final redemption date of the Note 1 from 19 March 2018 to 19 May 2018, with an agreed interest to be accrued on the principal balance of the Note 1 from (and including) 20 March 2018 to (and including) the actual date of redemption of the Note 1 in full. According to the Letter Agreement, the Company shall make a payment of USD2,000,000 to the holder of the Note 1 on or before 29 March 2018 to be applied first to interest accrued due as at the date of such payment and thereafter to reduce the principal balance of the Note 1.

On 19 May 2018, the holder of the Note 1 agreed to further extend the final redemption date of the Note 1 from 19 May 2018 to 31 December 2018. Both the holder of the Note 1 and the Company agreed that the Company shall make payment to the holder of the Note 1 of an amount of US$500,000 on the last day of each month during the calendar year of 2018, commencing 31 May 2018, save that the amount payable on 31 December 2018 shall be an amount equal to all remaining indebtedness due on or in respect of the Note 1 outstanding at such time, and each payment shall apply first in payment of interest and any other amounts due on or in respect of the Note 1 and thereafter in redemption of the balance of the principal outstanding on the Note 1.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

24. NOTES (continued)

Notes: (continued)

(c) (continued)

Around and upon maturity, the Company and the holder of the Note 1 renegotiated the terms of the Note 1 and entered into another Letter Agreement ("New Letter Agreement") with the holder of the Note 1 to further extend the final redemption date from 31 December 2018 to 30 June 2019 on the condition that, among others, the Company shall make payment to the holder of the Note 1 of an amount of US$3,000,000 on or before 29 March 2019 and thereafter in an amount of US$500,000 on the last day of each succeeding month commencing on 31 March 2019 save that the amount payable on 30 June 2019 shall be an amount equal to all remaining indebtedness due on or in respect of the Note 1 outstanding at such time, and each payment shall apply first in payment of interest and any other amounts due on or in respect of the Note 1 and thereafter in redemption of the balance of the principal outstanding on the Note 1. According to the New Letter Agreement, interest shall continue to accrue on the principal balance of the Note 1 at a rate of 10% on top of the original interest rate per annum.

As referred to note 24(a)(i) above, one of the events of default under the Note 1 is that the ratio of the total liabilities of the Company to the total assets of the Company (the "Debt Ratio") exceeds a specified ratio. As at 31 December 2017, the Debt Ratio has exceeded the specified ratio under the terms of the Note 1. According to the Letter Agreement, the holder of the Note 1 has agreed to waive the condition regarding the Debt Ratio with respect to the Company's audited financial statements for the year ended 31 December 2017. On 19 May 2018, the holder of the Note 1 further agreed to waive the condition regarding the Debt Ratio with respect to the Group's unaudited interim financial information for the six months ended 30 June 2018.

During the year, 9.12% of the issued shares of Pacific Mining was issued to an independent third party. According to the New Letter Agreement, the holder of the Note 1 has agreed to extend its consent to the covenant with respect to the disposal of the 9.12% the issued shares of Pacific Mining.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

25. DEFERRED TAX

The movements in deferred tax assets and liabilities during the year are as follows:

Deferred tax assets

	Fair value adjustments arising from acquisition of subsidiaries	Tax losses and unabsorbed capital allowances	Total
	USD'000	USD'000	USD'000
At 1 January 2017	11	221	232
Deferred tax charged to profit or loss during the year (note 9)	–	(207)	(207)
At 31 December 2017 and 1 January 2018	11	14	25
Deferred tax charged to profit or loss during the year (note 9)	–	(12)	(12)
At 31 December 2018	11	2	13

The Group has tax losses arising in Malaysia of approximately USD7,022,000 (2017: USD6,828,000) and in Singapore of approximately USD12,000 (2017: USD12,000) that are available indefinitely for offsetting against future taxable profits of the subsidiaries in which the losses arose. Deferred tax assets have not been recognised in respect of the tax losses as it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

25. DEFERRED TAX (continued)

Deferred tax liabilities

	Fair value adjustments arising from acquisition of subsidiaries USD'000	Depreciation allowance in excess of related depreciation USD'000	Fair value revaluation of financial assets at FVTOCI/ available-for-sale investments USD'000	Total USD'000
At 1 January 2017	2,675	47	1,471	4,193
Deferred tax credited to profit or loss during the year (note 9)	–	(19)	–	(19)
Deferred tax credited to reserves during the year	–	–	(19)	(19)
Exchange differences	282	–	–	282
At 31 December 2017 and 1 January 2018	2,957	28	1,452	4,437
Deferred tax credited to profit or loss during the year (note 9)	–	(19)	–	(19)
Deferred tax credited to reserves during the year	–	–	(1,452)	(1,452)
Exchange differences	(56)	–	–	(56)
At 31 December 2018	2,901	9	–	2,910

NOTES TO FINANCIAL STATEMENTS

31 December 2018

26. PROVISION FOR REHABILITATION

	2018	2017
	USD'000	USD'000
At the beginning of year	**380**	353
Unwinding of discount (note 6)	**29**	27
At the end of year	**409**	380

The provision is related to mine site rehabilitation, and is based on the best estimate for future expenditure to be made by the Group, discounted to its net present value at a rate of 6.4% (2017: 6.4%). The discount rate adopted reflects the current market assessments of the time value of money and the risks specific to the provision. Subsequently, the provision for rehabilitation will increase each year by the accretion of interest due to the passage of time which is recognised as interest expense.

27. SHARE CAPITAL

Shares

	2018	2017
	USD'000	USD'000
Authorised:		
3,000,000,000 (2017: 3,000,000,000) ordinary shares of HK$0.01 each	**3,867**	3,867
Issued and fully paid:		
1,500,000,000 (2017: 1,500,000,000) ordinary shares of HK$0.01 each	**1,934**	1,934

NOTES TO FINANCIAL STATEMENTS

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28. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity in the consolidated financial statements.

(a) Share premium

The application of the share premium account is governed by the Companies Law of the Cayman Islands. Under the constitutional documents and the Companies Law of the Cayman Islands, the share premium is distributable as dividend on the condition that the Company is able to pay its debts when they fall due in the ordinary course of business at the time the proposed dividend is to be paid.

(b) Capital reserve

Capital reserve represented: (i) differences arising from acquisition of non-controlling interests and reserve arising from the waiver of debts by the former shareholders of the Company in prior years of USD13,825,000; (ii) the difference between the nominal amount of USD15,000,000 and the fair value of USD13,887,000 of the interest-free loan granted by the ultimate holding company during the year ended 31 December 2015. At origination, the Group calculated its present value using the current market rate for similar instruments, the difference between the loan nominal amount and the present value of USD1,131,000 is treated as equity contribution from the ultimate holding company and credited to the capital reserve account.

(c) Contributed surplus

Contributed surplus represented the difference between the nominal value of shares of the subsidiary acquired pursuant to the Group's reorganization in preparation for the listing of the Company's shares on the Main Board of The Stock Exchange of Hong Kong Limited and the previous nominal value of the Company's shares issued in exchange therefor.

(d) Other reserve

Other reserve represented the difference between the amount of the adjustment to non-controlling interests and the consideration received arising from the disposal of the 9.12% of the issued shares of a subsidiary of the Group which did not result in loss of control of that subsidiary.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

29. 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.

	Interest payable included in other payables and accruals USD'000	Bank loans USD'000	Hire purchase arrangements USD'000	Notes USD'000	Due to the ultimate holding company USD'000	Total liabilities from financing activities USD'000
At 1 January 2018	1,206	55,999	25	40,692	60,000	157,922
Changes from financing cash flows:						
Net decrease in bank borrowings	–	(15,053)	–	–	–	(15,053)
Capital element of hire purchase arrangement payments	–	–	(18)	–	–	(18)
Redemption of notes	–	–	–	(3,915)	–	(3,915)
Interest paid	(4,916)	–	–	(5,641)	–	(10,557)
Other changes:						
Interest on bank and other borrowings recognised for the year	4,121	–	–	–	–	4,121
Effective interest of notes recognised for the year	–	–	–	5,907	–	5,907
Foreign exchange adjustments	–	–	–	244	–	244
At 31 December 2018	411	40,946	7	37,287	60,000	138,651

NOTES TO FINANCIAL STATEMENTS

31 December 2018

29. RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES (continued)

	Interest payable included in other payables and accruals USD'000	Bank loans USD'000	Hire purchase arrangements USD'000	Notes USD'000	Due to the ultimate holding company USD'000	Total liabilities from financing activities USD'000
At 1 January 2017	207	33,659	79	20,213	50,000	104,158
Changes from financing cash flows:						
Net increase in bank borrowings	–	22,340	–	–	–	22,340
Capital element of hire purchase arrangement payments	–	–	(62)	–	–	(62)
Proceeds from issue of notes	–	–	–	20,000	–	20,000
Notes issue expenses	–	–	–	(200)	–	(200)
Loans advanced from the ultimate holding company	–	–	–	–	10,000	10,000
Interest paid	(702)	–	–	(2,867)	–	(3,569)
Other changes:						
Interest on bank and other borrowings recognised for the year	1,701	–	–	–	–	1,701
Effective interest of notes recognised for the year	–	–	–	3,716	–	3,716
Foreign exchange adjustments	–	–	8	(170)	–	(162)
At 31 December 2017	1,206	55,999	25	40,692	60,000	157,922

30. NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the Group invested in an associate by contributing 9.12% of the issued shares of a subsidiary of the Group

During the year ended 31 December 2017, other receivable of USD2,300,000 in respect of termination of the proposed acquisition of a 60% equity interest in Red Sun Resources Sdn. Bhd. ("Red Sun") was settled through the Group's purchases of iron ore products from Red Sun.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

31. DIVIDENDS

No dividends have been paid or declared by the Company for the year (2017: Nil).

32. CONTINGENT LIABILITIES

At the end of the reporting period, neither the Group nor the Company had any significant contingent liabilities.

33. OPERATING LEASE ARRANGEMENTS – THE GROUP AS LESSEE

The Group leases certain of its motor vehicles and office under operating lease arrangements, with leases negotiated for terms ranging from three to six years (2017: two to five years).

At the end of each reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	USD'000	USD'000
Within one year	**346**	180
In the second to fifth years, inclusive	**558**	358
	904	538

34. OTHER COMMITMENTS

In addition to the operating lease commitments detailed in note 33 above, the Group had the following commitments at the end of the reporting period:

(a) Mining fee

The Group has agreed to pay Gema Impak Sdn. Bhd. ("Gema Impak") a mining fee of RM40 per tonne of iron ore products extracted from Ibam Mine and sold by Capture Advance.

(b) Service fee

Pursuant to the mining sub-contract in relation to Ibam Mine entered into between the Group and the mining contractor, a third party, which has been renewed on 26 December 2016 and continues to be effective until the expiry of the mining lease or any renewal thereof, whichever is later unless otherwise determined by mutual consent of the parties to the mining sub-contract, the mining contractor shall mine and produce iron ore products at Ibam Mine using the machinery or equipment provided by the Group. If the production volume is equal to or less than 30 thousand tonnes per month, the service fee for the mining contractor is RM60 per tonne of iron ore produced, if the production volume exceeds 30 thousand tonnes per month, the service fee should be re-negotiated and agreed between the Group and the mining contractor.

NOTES TO FINANCIAL STATEMENTS

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35. RELATED PARTY TRANSACTIONS AND BALANCES

(a) In addition to the transactions detailed elsewhere in these consolidated financial statements, the Group had the following transactions with related parties during the year:

	2018 **USD'000**	2017 USD'000
Interest-free loans advanced from the ultimate holding company	**–**	10,000
Repayment of loan to the ultimate holding company	**–**	–

The above loans from the ultimate holding company were unsecured and interest-free. See note 35(c) below for details.

(b) Compensation of key management personnel of the Group:

	2018 **USD'000**	2017 USD'000
Short term employee benefits	**814**	1,062
Post-employment benefits	**22**	19
Total compensation paid to key management personnel	**836**	1,081

Further details of directors' and the chief executive's emoluments are included in note 8 to the consolidated financial statements.

(c) Outstanding balances with related parties:

As at 31 December 2018, the Group had interest-free loans from the ultimate holding company, Cosmo Field, of USD60,000,000 (note 22). Cosmo Field granted unsecured interest-free loans of USD40,000,000 and USD20,000,000 to the Group pursuant to the shareholder loan agreements entered into between the Group and Cosmo Field both dated 27 September 2018, which were due on demand for repayment on or before 27 September 2019.

As at 31 December 2017, the Group had interest-free loans from the ultimate holding company, Cosmo Field, of USD60,000,000 (note 22). Cosmo Field granted unsecured interest-free loans of USD40,000,000 and USD20,000,000 to the Group pursuant to the shareholder loan agreements entered into between the Group and Cosmo Field dated 27 September 2016 and 22 December 2016, respectively, which were due on demand for repayment before 27 September 2018.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

35. RELATED PARTY TRANSACTIONS AND BALANCES (continued)

(d) Bank loans and notes guaranteed by related parties:

As at 31 December 2018, the bank loans with aggregate carrying amount of USD40,946,000 (2017: nil) were guaranteed by a director of the Company.

The Note 1 issued during the year ended 31 December 2016 were guaranteed by the following related parties for nil consideration: (i) Cosmo Field; (ii) Mr. Li Yang; and (iii) Mr. Li Dongming who is the father of Mr. Li Yang (note 24(a)(iii)).

The Note 2 issued during the year ended 31 December 2017 were guaranteed by Cosmo Field and Mr. Li Yang for nil consideration (note 24(b)(iii)).

36. FINANCIAL INSTRUMENTS

Categories of Financial Instruments

	2018	2017
	USD'000	USD'000
Financial assets		
Available-for-sale financial assets	**–**	23,808
Financial assets measured at FVTOCI:		
Equity investments designated as FVTOCI upon initial recognition	**15,267**	–
Financial assets measured at amortised cost:		
Trade receivables	**205,093**	194,476
Other receivables	**9,220**	15,105
Pledged deposits	**–**	7,124
Cash and cash equivalents	**183**	2,085
	229,763	242,598
Financial liabilities		
At amortised cost:		
Trade payables	**1,953**	26,078
Other payables and accruals	**61,727**	61,460
Interest-bearing bank and other borrowings	**40,953**	56,024
Notes	**37,287**	40,692
	141,920	184,254

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies

Risk management is carried out by the finance department which is led by the Group's executive directors. The Group's finance department identifies and evaluates financial risks in close co-operation with the Group's operating units. The main risks arising from the Group's financial instruments are credit risk, liquidity risk and foreign currency risk.

The Group's financial risk management policy seeks to ensure that adequate resources are available to manage the above risks and to create value for its shareholders. The board of directors regularly reviews these risks and they are summarised below.

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Group. The Group is exposed to credit risk in relation to its trade and other receivables and cash deposits at banks. The carrying amounts of trade and other receivables, pledged deposits and cash and cash equivalents represent the Group's maximum exposure to credit risk in relation to financial assets.

The Group expects that there is no significant credit risk associated with cash deposits at banks since they are substantially deposited at state-owned banks and commercial banks for which the Group considers to have low credit risk.

In respect of trade receivables, the Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who wish to trade on credit terms are subject to credit verification procedures. Receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

As disclosed in note 4, the Group sells all of the products to a small number of customers. As a result, it faces a high level of concentration of credit risk. Since the Group trades only with recognised and creditworthy third parties, there is no requirement for collateral. Concentrations of credit risk are managed by analysis by customer/counterparty as the Group's exposure to credit risk is influenced mainly by the individual characteristics of each customer. At 31 December 2018, the Group had a concentration of credit risk as 23.1% (2017: 34.8%) and 99.7% (2017: 79.1%) of the Group's trade receivables were due from the Group's largest customer and the five largest customers respectively.

The Group applies the simplified approach to provide for expected credit losses for trade receivables prescribed by IFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables. In calculating the expected credit loss rates, the Group considers historical loss rates and adjusts for forward looking macroeconomic data. As at 31 December 2018, the Group has assessed that the expected credit losses for trade receivables is immaterial and thus no loss allowance for trade receivables was recognised.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies (continued)

Credit risk (continued)

As at 31 December 2018, the Group has assessed that the expected credit loss rate for other receivables is immaterial under 12 months expected losses method since related debtors have a low risk of default and a strong capacity to meet contractual cash flows. Thus, no loss allowance for other receivables was recognised.

In the prior year, for trade receivables, the Group performed ongoing credit evaluations of its debtors' financial condition. Outstanding receivables are monitored on an ongoing basis and the Group's exposure to bad debts was considered not significant. For other receivables, management made periodic individual assessment on their recoverability based on historical settlement records and the financial condition of related debtors.

Liquidity risk

The Group monitors its exposure to a shortage of funds by considering the maturity of both its financial instruments and projected cash flows from operations.

The Group's objective is to maintain a balance between continuity of funding and flexibility through the use of interest-bearing bank loans and hire purchase arrangements.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies (continued)

Liquidity risk (continued)

The maturity profile of the Group's financial liabilities at the end of each reporting period, based on the contractual undiscounted payments (including interest payments computed using contractual rates, or if floating, based on rates current as at the end of the reporting period) and the earliest date the Group can be required to pay, is as follows:

	As at 31 December 2018					
	On demand	**Less than 3 months**	**3 to less than 12 months**	**1 to 5 years**	**Beyond 5 years**	**Total**
	USD'000	**USD'000**	**USD'000**	**USD'000**	**USD'000**	**USD'000**
Interest-bearing bank and other borrowings	**–**	**7,272**	**36,247**	**–**	**–**	**43,519**
Notes	**–**	**3,000**	**37,747**	**–**	**–**	**40,747**
Trade payables	**–**	**1,953**	**–**	**–**	**–**	**1,953**
Other payables	**1,243**	**228**	**60,256**	**–**	**–**	**61,727**
	1,243	**12,453**	**134,250**	**–**	**–**	**147,946**

	As at 31 December 2017					
	On demand	Less than 3 months	3 to less than 12 months	1 to 5 years	Beyond 5 years	Total
	USD'000	USD'000	USD'000	USD'000	USD'000	USD'000
Interest-bearing bank and other borrowings	–	47,016	9,370	7	–	56,393
Notes	–	21,889	1,400	21,400	–	44,689
Trade payables	–	26,078	–	–	–	26,078
Other payables	60,900	–	560	–	–	61,460
	60,900	94,983	11,330	21,407	–	188,620

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Financial Risk Management Objectives and Policies (continued)

Foreign currency risk

The Group has transactional currency exposures. These exposures arise from sales or purchases by operating units in currencies other than the units' functional currencies. The Group also exposes to currency risk in respect of its equity investments designated as at fair value through other comprehensive income which are denominated in a currency other than the relevant units' functional currencies.

The following table demonstrates the sensitivity at the end of each reporting period to a reasonably possible change in Malaysian Ringgit ("RM") and Ren Min Bi ("RMB") exchange rates, with all other variables held constant, of the Group's profit before tax.

	Increase/ (decrease) in exchange rate	**Increase/ (decrease) in profit before tax**
	%	USD'000
2018		
If the US dollar weakens against RM	**5**	**–**
If the US dollar strengthens against RM	**(5)**	**–**
If the US dollar weakens against RMB	**5**	**463**
If the US dollar strengthens against RMB	**(5)**	**(463)**
2017		
If the US dollar weakens against RM	5	269
If the US dollar strengthens against RM	(5)	(269)
If the US dollar weakens against RMB	5	490
If the US dollar strengthens against RMB	(5)	(490)

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Fair Values Measurements

Management has assessed that the fair values of cash and cash equivalents, pledged deposits, trade receivables, other receivables, trade payables, other payables and accruals, interest-bearing bank and other borrowings approximate to their carrying amounts because of the short term maturities of these financial instruments.

Financial instruments measured at fair value:

(i) Fair value hierarchy

The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in IFRS 13 Fair Value Measurement. Fair value hierarchy levels 1 to 3 are based on the degree to which the fair value is observable:

– Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;

– Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

– Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Fair value measurement Level 3 USD'000
Recurring fair value measurements	
Unlisted equity investments	
– As at 31 December 2018	**15,267**
– As at 31 December 2017	23,808

(ii) Transfers between levels of fair value hierarchy

During the year ended 31 December 2018, there were no transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur. During the year ended 31 December 2017, except that the Group transferred its unlisted equity investment amounting to approximately US$13,056,000 from Level 2 to Level 3 fair value hierarchy, there were no other transfers between Level 1 and Level 2, or transfers into or out of Level 3.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Fair Values Measurements (continued)

Financial instruments measured at fair value: (continued)

(iii) Information about Level 3 fair value measurements

The following tables summarise the information about how the fair values of those financial instruments categorised within Level 3 of the fair value hierarchy are determined (in particular, the valuation technique(s) and inputs used).

Description	**Fair value at 31 December 2018 US$'000**	Fair value at 31 December 2017 US$'000	Valuation technique	Significant unobservable input(s)	Relationship and sensitivity of unobservable inputs to fair values
Unlisted equity investments	**15,267**	23,808	Market approach – based on significant unobservable inputs which include price to total assets of comparable public companies with adjustments made to the estimated market prices to reflect condition and utility of the investment relative to market comparatives.	Price to total assets ratio of 1.19 (2017: ranged from 1.24 to 2.78)	Increase in price to total assets ratio will result in increase in fair values. If the price to total assets ratio was 10% higher/lower while all other variables were held constant, the fair value would increase/decrease by USD1,529,000.
				Discount for lack of marketability (DLOM) of 16% (2017: ranged from 18% – 20%)	Increase in DLOM will result in decrease in fair values. If the DLOM was 300 basis points higher/lower while all other variables were held constant, the fair value would decrease/increase by USD546,000.

(iv) Valuation processes

The management of the Group is responsible to determine the appropriate valuation techniques and inputs for fair value measurements. In estimating the fair value of a financial asset or a financial liability, the Group uses market-observable data to the extent it is available. When Level 1 or Level 2 inputs are not available, the Group engaged independent qualified external valuers to perform the valuation. The management of the Group works closely with qualified external valuers to establish the appropriate valuation techniques and inputs to the model.

NOTES TO FINANCIAL STATEMENTS

31 December 2018

36. FINANCIAL INSTRUMENTS (continued)

Fair Values Measurements (continued)

Financial instruments measured at fair value: (continued)

(iv) Valuation processes (continued)

The movements during the year in the balance of Level 3 fair value measurements are as follows:

	2018	2017
	US'000	US'000
Unlisted equity investments:		
At 1 January	**23,808**	10,884
Transfer into Level 3	**–**	13,056
Net unrealised gains/(losses) recognised in other comprehensive income during the year	**(8,541)**	(132)
At 31 December	**15,267**	23,808

Capital Management

The primary objective of the Group's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. To maintain or adjust the capital structure, the Group may adjust the dividend payment to shareholders or raise new capital from its investors.

No changes were made in the objectives, policies or processes for managing capital during the year.

The Group is currently funding its capital expenditure through internal generated funds from its operations and new bank borrowings and loans from related parties. The Group monitors capital using a gearing ratio, which is net debt divided by total equity plus net debt. The Group's policy is to keep the gearing ratio between 20% and 50% over the long term. Net debt is defined as interest-bearing bank loans and other loans, notes and an amount due to the ultimate holding company, net of cash and bank balances and it excludes liabilities incurred for working capital purposes. Equity includes equity attributable to the equity shareholders of the Company and non-controlling interest.

As at 31 December 2018, the gearing ratio was 47.5% (2017: 57.8%).

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company at the end of the reporting period is as follows:

	2018 USD'000	2017 USD'000
NON-CURRENT ASSETS		
Investments in subsidiaries	**143,042**	153,252
Deferred tax assets	**–**	12
	143,042	153,264
CURRENT ASSETS		
Cash and cash equivalents	**61**	4
Tax recoverable	**8**	–
	69	4
CURRENT LIABILITIES		
Other payables and accruals	**4,562**	1,049
Notes	**37,287**	20,882
Due to the ultimate holding company	**60,000**	60,000
	101,849	81,931
NET CURRENT LIABILITIES	**(101,780)**	(81,927)
Total assets less current liabilities	**41,262**	71,337
NON-CURRENT LIABILITIES		
Notes	**–**	19,810
Net assets	**41,262**	51,527
EQUITY		
Issued capital	**1,934**	1,934
Reserves (note)	**39,328**	49,593
Total equity	**41,262**	51,527

NOTES TO FINANCIAL STATEMENTS

31 December 2018

37. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note:

A summary of the Company's reserves is as follows:

	Share premium account USD'000	Retained earnings USD'000	Total USD'000
At 1 January 2017	47,541	5,598	53,139
Total comprehensive loss for the year	–	(3,546)	(3,546)
At 31 December 2017 and 1 January 2018	47,541	2,052	49,593
Total comprehensive loss for the year	–	(10,265)	(10,265)
At 31 December 2018	47,541	(8,213)	39,328

38. COMPARATIVE AMOUNTS

The Group has initially adopted IFRS 9 on 1 January 2018. Comparative information is not restated based on the transition method chosen, details are set out in note 2.2.

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

39. EVENTS AFTER THE REPORTING PERIOD

Pursuant to a sub-contract agreement for iron ore producing in relation to Ibam Mine entered into between the Group and a mining contractor, a third party, on 1 January 2019 and which will expire on 31 December 2019, the Group shall provide the machine to the mining contractor for producing and the mining contractor shall provide people for iron ore mining and produce, provide the supplementary equipment during crushing, processing, mining, and all the resources including diesel, steel ball and etc. If the production volume is equal to or less than 30 thousand tonnes, the service fee for the mining contractor is RM216 per tonne of iron ore produced, if the production volume exceeds 30 thousand tonnes, the service fee should be re-negotiated and agreed between the Group and the mining contractor.

40. APPROVAL OF THE FINANCIAL STATEMENTS

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

FIVE YEAR SUMMARY OF FINANCIAL INFORMATION

Financial results	**For the year ended 31 December**				
(USD'000)	**2018**	2017	2016	2015	2014
Continuing operations					
REVENUE	**1,447,008**	1,104,616	1,240,674	550,168	152,304
Cost of sales	**(1,428,623)**	(1,088,089)	(1,226,963)	(535,266)	(136,928)
Gross profit	**18,385**	16,527	13,711	14,902	15,376
Other income	**1,862**	3,398	3,738	2,735	2,576
Selling and distribution expenses	**(267)**	(770)	(180)	(120)	(7,605)
Administrative expenses	**(5,672)**	(8,684)	(5,379)	(5,072)	(4,136)
Other expenses	**(983)**	(1,012)	(3,466)	(9,361)	(2,574)
Finance costs	**(10,057)**	(5,444)	(2,836)	(355)	(678)
Share of loss of an associate	**(1)**	–	–	–	–
Profit before tax from continuing operations	**3,267**	4,015	5,588	2,729	2,959
Income tax expense	**(733)**	(600)	(1,243)	(2,112)	(753)
Profit for the year	**2,534**	3,415	4,345	617	2,206
Other comprehensive income/(loss)					
Other comprehensive income/(loss) that may be reclassified subsequently to profit or loss:					
Changes in fair value of available-for-sale investments	**–**	(76)	5,884	–	–
Income tax effect	**–**	19	(1,471)	–	–
	–	(57)	4,413	–	–
Exchange differences on translation of foreign operations	**(371)**	1,828	(178)	(2,870)	(1,409)
Other comprehensive income/(loss) that will not be reclassified subsequently to profit or loss:					
Changes in fair value of equity investments designated as at fair value through other comprehensive income	**(8,541)**	–	–	–	–
Income tax effect	**1,452**	–	–	–	–
	(7,089)	–	–	–	–

FIVE YEAR SUMMARY OF FINANCIAL INFORMATION

Financial results	For the year ended 31 December				
(USD'000)	**2018**	2017	2016	2015	2014
Other comprehensive (loss)/income for the year, net of tax	**(7,460)**	1,771	4,235	(2,870)	(1,409)
Total comprehensive income/(loss) for the year, net of tax	**(4,926)**	5,186	8,580	(2,253)	797
Profit for the year attributable to:					
Owners of the Company	**2,534**	3,415	4,345	617	2,206
Non-controlling interests	**–**	–	–	–	–
	2,534	3,415	4,345	617	2,206
Total comprehensive income/(loss) for the year attributable to:					
Owners of the Company	**(4,926)**	5,186	8,580	(2,253)	797
Non-controlling interests	**–**	–	–	–	–
	(4,926)	5,186	8,580	(2,253)	797

Assets and Liabilities	As at 31 December				
(USD'000)	**2018**	2017	2016	2015	2014
Non-current Assets	**87,960**	47,857	46,886	58,248	75,570
Current Assets	**214,657**	254,584	196,939	112,375	60,531
Total Assets	**302,617**	302,441	243,825	170,623	136,101
Non-current Liabilities	**(3,319)**	(24,634)	(24,782)	(17,256)	(4,216)
Current Liabilities	**(146,487)**	(170,070)	(116,492)	(59,396)	(36,792)
Total Liabilities	**(149,806)**	(194,704)	(141,274)	(76,652)	(41,008)
Equity attributable to:					
Equity Shareholders of the Company	**151,098**	107,737	102,551	93,971	95,093
Non-controlling interest	**1,713**	–	–	–	–
Total Equity	**152,811**	107,737	102,551	93,971	95,093

GLOSSARY

In this annual report, unless the context otherwise requires, the following words and expressions shall have the following meanings.

"AGM"	the annual general meeting of the Company
"Articles of Association" or "Articles"	the articles of association of the Company which is effective from time to time
"associate(s)"	has the meaning ascribed thereto under the Listing Rules
"Audit Committee"	the audit committee of the Board
"Best Sparkle"	Best Sparkle Development Ltd., a company incorporated in the BVI with limited liability on 25 August 2010, an indirect subsidiary of the Company.
"Board of Directors" or "Board"	the board of Directors of the Company
"business day"	any day (other than Saturday, Sunday or a public holiday) on which licensed banks in Hong Kong are generally open for normal banking business
"BVI"	the British Virgin Islands
"CAA Resources", "Company", "we", "us" or "our"	CAA Resources Limited (優庫資源有限公司), a company incorporated in the Cayman Islands on 25 April 2012 under the Companies Law CAP. 22 and, except where the context otherwise requires, all of its subsidiaries or where the context refers to any time prior to its incorporation, the business which its predecessors or the predecessors of its present subsidiaries were engaged in and which were subsequently assumed by it
"Capture Advance"	Capture Advance Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares on 15 November 2007 and which is wholly owned by Best Sparkle Development Limited, and an indirect wholly-owned subsidiary of the Company
"Capture Advantage"	Capture Advantage Co., Ltd. a company incorporated in the BVI with limited liability on 23 August 2010, and which is a directly wholly-owned subsidiary of the Company

GLOSSARY

"Capture Bukit Besi"	Capture Bukit Besi Sdn Bhd., a company incorporated in Malaysia as a private company limited by shares on 30 September 2013, an indirect subsidiary of the Company
"CG Code"	Code on Corporate Governance Practices set out in Appendix 14 of the Listing Rules
"Chengdu Hande"	成都漢德投資管理有限公司 (Chengdu Hande Investment Management Co., Ltd.), a limited liability company established in the PRC on 19 November 2003, which is owned by Mr. Li Dongming, Mr. Li Yang, Mr. Wang Er and Ms. Li Xiaolan and is deemed as a connected person of our Company under the Listing Rules
"Chief Executive Officer"	the chief executive (as defined in the SFO) of the Company
"China" or "PRC"	the People's Republic of China. For the purpose of this report and for geographical reference only and except where the context requires, shall exclude Hong Kong, the Macau Special Administrative Region of the PRC and Taiwan
"Companies Law"	the Companies Law, Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands, as amended and supplemented from time to time
"Companies Ordinance"	the Companies Ordinance of Hong Kong (Chapter 622 of the Laws of Hong Kong), as amended, supplemented or otherwise modified from time to time
"connected transaction(s)"	has the meaning ascribed thereto in the Listing Rules
"Controlling Shareholder"	has the meaning ascribed to it under the Listing Rules, and in the context of this annual report means the controlling shareholders of our Company, namely Cosmo Field and Mr. Li Yang, and Controlling Shareholder means any one of them
"Cosmo Field"	Cosmo Field Holdings Limited (宇田控股有限公司), a company incorporated in the BVI with limited liability on 26 March 2012, and which is wholly owned by Mr. Li Yang

GLOSSARY

"COSO"	The Committee of Sponsoring Organizations of the Treadway Commission, a joint initiative dedicated to the development of frameworks and guidance on enterprise risk management, international control and fraud deterrence
"Deed of Non-Competition"	a deed of non-competition entered into on 9 June 2013 between the Company and each of Mr. Li Yang and Cosmo Field, as covenantors, each of Mr. Li Yang and Cosmo Field in favour of the Company (for ourselves and for the benefit of each member of our Group) that he/it shall not, and shall procure his/its associates (other than members of our Group) not to, directly or indirectly engage, participate or hold any right or interest in or render any services to or otherwise be involved in any business in competition with or likely to be in competition with the existing business activity of any member of our Group
"Director(s)"	the director(s) of the Company
"ESG"	Environment, Social and Governance as referred in Appendix 27 of the Listing Rules
"ESG Reporting Guide"	Guide on Environment, Social and Governance Reporting set out in Appendix 27 of the Listing Rules
"Gema Impak"	Gema Impak Sdn. Bhd., a company incorporated in Malaysia on 4 December 2006 with Pacific Mining holding 50% shareholding interest in Gema Impak as nominee, the details of which is set out in our announcement dated 7 November 2014
"Group", "we" or "us"	Our Company and our subsidiaries at the relevant time, or where the context refers to any time prior to our Company becoming the holding company of our current subsidiaries, our current subsidiaries and the business carried on by such subsidiaries or (as the case may be) our predecessors, and "our" shall be construed accordingly
"Hong Kong" or "HK"	the Hong Kong Special Administrative Region of the PRC
"Hong Kong dollars" or "HKD"	Hong Kong dollars, the lawful currency of Hong Kong

GLOSSARY

"Hua Heng"	Hua Heng Investments Limited (華恆投資有限公司), a company incorporated in the BVI with limited liability on 23 March 2012, our Shareholder
"Ibam Mine"	the mining site in respect of which the Mining Lease is granted and is located in Lot 27887 (PA 143236), Sungai Cipai, Mukim Keratong, Daerah Rompin, Pahang, Malaysia
"IFRSs"	International Financial Reporting Standards, which comprise standards and interpretations approved by International Accounting Standards Board and International Accounting Standards and Standing Interpretations Committee interpretations approved by the International Accounting Standards Committee that remain in effect
"Independent Technical Advisor" or "Geos Mining"	Geos Mining, an Independent Third Party and the Competent Person (which has the meaning ascribed to it under Chapter 18 of the Listing Rules) appointed by our Company in respect of the Listing, and a specialist independent geological and mineral exploration consultants based in Sydney, Australia and operating in accordance with Australian laws and professional codes of ethics
"Independent Third Party(ies)"	persons or companies which are independent of and not connected with (within the meaning of the Listing Rules) any of the Directors, Chief Executive Officers, Substantial Shareholders of the Company or any of its subsidiaries and their respective associates, and "Independent Third Party" means any of them
"inferred resource"	part of the iron ore resource for which tonnage, grade and mineral content can be estimated with a low level of confidence as defined by the JORC Code
"iron ore products"	the products produced from our iron ore crushing and beneficiation facilities in the form of iron ore concentrates and iron ore fines
"JORC"	the Australasian Joint Ore Reserves Committee
"JORC Code"	the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves

GLOSSARY

"Kt"	thousand tonnes, which is weight unit of measure for iron ore either on dry basis or on wet basis
"Listing"	the listing of the Shares on the Main Board of the Stock Exchange on 3 July 2013
"Listing Rules"	The Rules Governing the Listing of Securities on the Stock Exchange (as amended from time to time)
"Main Board"	the stock exchange (excluding the option markets) operated by the Stock Exchange which is independent from and operated in parallel with the Growth Enterprise Market of the Stock Exchange
"Malaysian Companies Act 1965"	the Companies Act 1965 of Malaysia and any subsequent amendment(s) thereof
"mining volume"	the aggregate volume of produced ore volume excluding stripping rock volume
"Model Code"	the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 of the Listing Rules
"MOU"	memorandum of understanding
"Mt"	million tonnes, which is weight unit of measure for iron ore either on dry basis or on wet basis
"Nomination Committee"	the nomination committee of the Board
"Pacific Mining"	Pacific Mining Resources Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares on 31 August 2007, and which is 90.88% owned by Best Sparkle Development Ltd., and an indirect subsidiary of our Company
"probable reserves"	the economically mineable part of an indicated resource, and in some circumstances, a measured resource, as defined by the JORC Code, which includes diluting materials and allowances for losses which may occur when the material is mined
"Project Ibam"	the mining project carried out at the Ibam Mine pursuant to the Mining Agreement

GLOSSARY

"Prospectus"	the prospectus dated 30 June 2013 issued by the Company in connection with the Global Offering and the Listing
"Red Sun Resources"	Red Sun Resources Sdn. Bhd., a company incorporated in Malaysia as a private company limited by shares which the interest on a parcel of land located at Bukit Besi, Terengganu, Malaysia would be transferred
"Remuneration Committee"	the remuneration committee of the Board
"RM"	Malaysian Ringgit, the lawful currency of Malaysia
"RMB"	Renminbi, the lawful currency of the PRC
"SFO"	the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) as amended, supplemented or otherwise modified from time to time
"Share(s)"	ordinary share(s) with a nominal value of HKD0.01 each in the share capital of the Company
"Share Option Scheme"	the share option scheme conditionally adopted by the Company on 12 April 2013 "Shareholder(s)"
"Stock Exchange"	The Stock Exchange of Hong Kong Limited
"subsidiary(ies)"	has the meaning ascribed to it under section 2 of the Companies Ordinance
"Substantial Shareholder"	has the meaning ascribed to it under the Listing Rules
"U.S." or "United States"	the United States of America, its territories, its possessions and all areas subject to its jurisdiction
"USD", "US dollars" or "US$"	United States dollars, the lawful currency of the United States
"%"	per cent
"3W Development"	3W Development Limited, a company incorporated in Hong Kong as a private company Limited by shares on 25 February 2014 and which is an indirect wholly-owned subsidiary of the Company

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Mr. Li Yang
(Chairman and Chief Executive Officer)
Ms. Li Xiaolan
Mr. Wang Er
Ms. Xu Mijia

Independent Non-Executive Directors

Mr. Leung Yiu Cho
Dr. Li Zhongquan
Dr. Wang Ling

AUDIT COMMITTEE

Mr. Leung Yiu Cho *(Chairman)*
Dr. Wang Ling
Dr. Li Zhongquan

REMUNERATION COMMITTEE

Dr. Wang Ling *(Chairman)*
Dr. Li Zhongquan
Ms. Li Xiaolan

NOMINATION COMMITTEE

Mr. Li Yang *(Chairman)*
Dr. Wang Ling
Dr. Li Zhongquan

AUTHORISED REPRESENTATIVES

Mr. Li Yang
Mr. Chu Lok Fung Barry

COMPANY SECRETARY

Mr. Chu Lok Fung Barry, *CPA (Aust.), FCPA*

REGISTERED OFFICE

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Grand Cayman KY1-1111
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MSC Kuantan, 25200
Kuantan, Pahang
Malaysia

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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99 Queen's Road Central,
Hong Kong

PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE IN CAYMAN ISLANDS

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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

LEGAL ADVISOR

Jimme K.S. Wong & Partner

COMPANY WEBSITE

www.caa-resources.com

STOCK CODE

02112