Silk Road Logistics Holdings Limited
絲路物流控股有限公司

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)
Stock Code 股份代號：00988

2018
ANNUAL 年
REPORT 報

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Corporate Information

EXECUTIVE DIRECTORS
Cai Jianjun *(Chairman)*
Zhao Cheng Shu *(Deputy Chairman)*
Wang Xiusong
Zhang Rui

NON-EXECUTIVE DIRECTOR
Zhou Hao

INDEPENDENT NON-EXECUTIVE DIRECTORS
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao
Zhu Dengkai
Liu Wei
Zou Mingwu

AUDIT COMMITTEE
Leung Yuen Wing *(Chairman)*
Choy So Yuk, *BBS, JP*
Wu Zhao
Zhu Dengkai

REMUNERATION COMMITTEE
Zhu Dengkai *(Chairman)*
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Wu Zhao

NOMINATION COMMITTEE
Liu Wei*(Chairman)*
Wang Xiusong
Choy So Yuk, *BBS, JP*
Leung Yuen Wing
Zhu Dengkai
Wu Zhao

EXECUTIVE COMMITTEE
Cai Jianjun *(Chairman)*
Wang Xiusong
Zhang Rui

AUTHORISED REPRESENTATIVES
Wang Xiusong
Chiu Yuk Ching

COMPANY SECRETARY
Chiu Yuk Ching

AUDITORS
CCTH CPA Limited

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
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BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
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Wanchai
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PRINCIPAL BANKERS
Citic Bank International Limited
DBS Bank (Hong Kong) Limited
The Bank of East Asia, Limited
Bank of Communications Co., Ltd

Chairman Statement

Dear Shareholders,

On behalf of the board of Directors (the "Board"), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the "Group") for the year ended 31 December 2018 (the "Year").

The year of 2018 was of great significance to the course of national development. It was a crucial year for the implementation of China's 13th Five-year Plan. The 13th Five-year Plan lays down the strategy and gives top priority to economic development to reach a GDP growth rate of 6.5-7% per annum, consistent with the goal of becoming a 'moderately prosperous society' by 2020.

During the Year, the Company has actively developed and focused on an integrated trading, warehouse and logistics business model, which has enhanced the growth of the business and asset base as well as broadened the income stream of the Group. Since 2016, the Group has well established the warehouse logistic projects in Qian'an and Inner Mongolia. Such integrated business is well-placed to benefit the Group in line with the PRC Government policy given the strategic locations of our investments and infrastructure built in Hebei and Inner Mongolia along the Belt and Road corridor.

Particularly in Inner Mongolia, China, Mongolia and Russia have formulated "the Plan on Establishing the China-Mongolia-Russia Economic Corridor" in 2015. Driven by this economic corridor between Russia and Mongolia and "Belt and Road corridor" economic strategy, our warehouse logistic projects in Inner Mongolia have obvious geographical advantages because Mongolia is located between Russia and China, where land transport between Russia and China must go through. Therefore, we believe that Inner Mongolia, a border province in northern China, acts as a bridgehead between China and its northern neighbours. Accordingly, our Inner Mongolia warehouse can serves as one of logistics centres and trade hubs along the China-Mongolia-Russia Economic Corridor and plays an important role in China's external-oriented economic development.

OUTLOOK AND BUSINESS STRATEGIES

The global economy turns gloomy sharply this year after the set in of trade dispute between the USA and China. The high tariffs on foreign import set as a trade barrier limiting the import and export activities around the world and causing the fall of economic confidence among investors. This will ultimately lead to global financial instability if the emerging and developing economies are unable to repay their debts. As the trade tensions between US and China intensify, it is anticipated the China's economy would grow in a weaker pace if no solutions for the trade dispute could be made.

As announced by the Company on 26 January 2019, the Company has entered into the joint venture agreement with Kunlun Energy Company Limited and Noble Bridge Capital (Hong Kong) Limited for the formation of the joint venture company (the "JV Company") for conducting liquified natural gas business. According to the nation's energy development plan, the percentage of the PRC's natural gas in the primary energy consumption structure is expected to reach 10% in the year of 2020. The International Energy Agency also estimates that the PRC will become one of the key drivers in the growth of global natural gas market and will account for 37% of the increment in the global natural gas consumption for the coming five years. Therefore, it is expected that the natural gas industry in the PRC will enjoy a continuous rapid growth in the near future. Therefore, regarding this strategic move, it aims to further reinforce the Group's strength in investment and operation in the energy sector and also expect the JV Company will bring long-term and stable returns for the Shareholders.

Looking forward, the Group will continue to focus on expanding its trading business and warehousing and logistic businesses, and optimise the crude oil business, so as to diversifying the revenue stream and business portfolio of the Group. The Group will also review and assess potential projects or investments on a reliable basis to strengthen its performance and enhance the interests of the shareholders of the Company.

We firmly believe that our nation's development outlook is robust and China is well on its way towards reaching the goal of growing into a moderately prosperous society. As suggested in the Belt and Road Initiative and the adherence to Supply-Side Structural Reform will provide an enormous amount of growth opportunities. We will continue to follow through with our prudent and pragmatic management principles to further develop and grow our diverse business portfolio in the Greater China area, with a commitment to creating more value for the Company and our shareholders.

With the continued support of our two significant shareholders with State-owned background, China Huarong International Holdings Limited and Tewoo Group Co Ltd, we are now better positioned to meet future challenges and capture any growth and business opportunities whenever they arise. We will pursue deeper strategic partnerships with our valued shareholders in exploring investment opportunities as well as financial support and collaborations.

APPRECIATION

Finally, I would like to express my heartfelt appreciation to our shareholders, investors and partners for their strong support. I would also like to express my gratitude to our Directors and all employees of the Group for their diligent and valuable contributions. In association with the Company's refreshed strategy, I look forward to 2019 and beyond with buoyant optimism.

Cai Jianjun
Chairman and Executive Director

Hong Kong, 28 March 2019

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 December 2018, the Group recorded revenue from continuing operations of approximately HK$11,536,943,000 (2017: approximately HK$3,090,306,000), representing an increase of 273% from prior year. The Group's gross profit of the continuing operations shrink to approximately HK$67,830,000 for the year ended 31 December 2018 from approximately HK$191,150,000 recorded in 2017, with the gross profit margin decreased to 0.6% from 6.2% in prior year. The Company recorded a loss attributable to the owners of the Company from the continuing operations for the year ended 31 December 2018 to approximately HK$453,358,000 from that of about HK$91,336,000 recorded in the preceding year.

BUSINESS REVIEW

In the second half of 2017, the Group successfully disposed the entire share of Buddies Power Enterprises Limited ("Buddies Power") and its subsidiaries. Getting exit from coal processing and metallurgical coke manufacturing segment, the Group recognized a substantial non-cash gain amounted to HK$897,065,000 in 2017. This disposal released the financial pressure of the Group from the continuing loss-making business with unfavourable prospect and the financial burden to upgrade the manufacturing plants. The Group can realign its resources on the other business segments.

However, due to the PRC Government imposed a tighten control on environmental protection and industry overcapacity, and implement policies on infrastructure remodeling, the volatility of the commodities price increased, which squeezed the profit margin of the commodities trading segment. Thus the Group expanded the trading volume to hunt for more profit. As the atmosphere of commodities trading was not stable, provision have been made on outstanding receivables and prepayment of over one year. The Group will stop business with those customers with long outstanding receivables and will assign personnel to follow up the settlement. In case of any further potential default, the Group will take appropriate actions, including legal actions, to resolve the issue.

The debtor's turnover day of the Group in 2018 was reduced to 13 days compared with 57 days in 2017. It is in line with the credit period of the Group assign to the customers. In future, the Group will maintain its strict credit policy to customers with more emphasis on repayment quality. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. For the adoption of new HKFRS 9, the Group has measured the expected credit losses, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The management will continue to closely monitor the credit qualities and the collectability of the trade receivables.

The Company's major subsidiary, Silk Road Logistics (Qian'an) Company Limited (previously known as "Tianjin Property Qian'an Logistics Company Limited") ("Qian'an Logistics"), continued to be the primary sources of revenue and profit of the Group's operation. Revenue from trading segment amounted to approximately HK$11,523,498,000 in 2018, rose 274% from about HK$3,084,802,000 in 2017, which are wholly contributed by Qian'an Logistics in this year. Qian'an Logistics also contributed profit of about HK$16,317,000 in 2018, compared with HK$42,320,000 in 2017, which reinforced our business strategy to focus on high return business – warehouse logistics and supply chain operation, as well as the commodities trading business.

Management Discussion and Analysis

In 2018, the WTI crude oil price was raised to the top in September, and subsequently fall to about US$45 per barrel in December. As a result, the profit of Company's 30%-owned associate, RockEast Energy Corporation was reduced compared with prior year. On the other hand, due to the volatility of the crude oil price, as well as the high maintenance costs of the ageing wells, the Group's US oil operation unit was continued to report losses in 2018. The Group will keep closely monitor the profitability of these oil assets, and reassess the business outlook to formulate the best possible asset strategy to the Group in the long run.

Our strategic investments in associates were coincident with the One Belt One Road policies launched by the PRC Government. As the policies are still in developing stage, whilst the two associates were not in full operation, leading to the impairment in those investments. However, in view of the confidence presented by the PRC leaders in the international occasions, the One Belt One Road policies will definitely a driving force for our future growth.

In the fourth quarter of 2018, the Company entered into an agreement to dispose the headquarter office to an independent third party at a consideration of HK$30,993,160, which gives a good opportunity for the Group to realise its investment in the property. The proceeds will be used as general working capital of the Group.

OUTLOOK

In 2019, the global economy is full of challenges. The economy of PRC is expected to enter into a stage of "low speed, quality growth". There are three elements to stimulate the PRC domestic economy, which are through the expansion of investment, export and domestic consumption. However, investment will expect to slow down, as the government continues to de-leverage in order to maintain a healthy business environment, while the escalation of Sino-US trade friction will unavoidably affect the export performance. Thus domestic consumption will become the key driver of the economy. On the other hand, PRC's economy will face a downside risk, which comes from the tightening control of the monetary and real estate policies. These factors may affect the consumer consumption pattern like the willingness of purchase the real estate, which may indirectly affect the demand of commodities and the profitability of the Group.

Looking forward, after the disposal of the metallurgical coke manufacturing business, the Group will emphasize in the logistics and warehousing business, and strengthening in commodities trading sector. Together with our investment and infrastructure built in Hebei and Inner Mongolia, we can get in line with and benefit from the strategies of One Belt One Road policies launched by the PRC Government.

In addition, benefit from the cooperation with the business partner, a State-owned investor, Tewoo Group Co. Ltd ("Tewoo"), the commodities trading business was burst to a new level in this year. On one hand, the Group would maintain its business relations with Tewoo to earn stable income; on the other hand, the Group will develop its trading business in other area to maximize the growth.

In January 2019, the Company, Kunlun Energy Company Limited and Noble Bridge Capital (Hong Kong) Limited have agreed to form a joint venture company (the "Joint Venture Company") for conducting liquefied natural gas related business. The Group, through its 40% equity interest in the Joint Venture Company, cooperates with joint venture partners to bolster its natural gas energy business and through the support of this strategic partner, Kunlun Energy Company Limited, the Group will reinforce the Group's strength in investment and operation in the energy sector and also expect the Joint Venture Company would bring long-term and stable returns for the Shareholders. Through this cooperation, the Group could explore a new business segment in conducting LNG related businesses. This could help to diversify the business risk, so as to increase the shareholders' wealth.

In order to achieve our goal as a prominent player in commodities and resources sectors, the Group is constantly reviewing different options of further collaborations with existing and new strategic investors to capitalize on market opportunities to maximize return to shareholders.

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2018, the Group had total interest bearing bank and other borrowings for the continued operations is in the amount of approximately HK$414,412,000 (31 December 2017: HK$144,551,000), representing an increase of HK$269,861,000 for the continued operation. The Group's interest bearing bank and other borrowings are repayable within one year. The total interest bearing bank and other borrowings for the discontinued operations in 2017 is in the amounts of HK$1,871,080,000, and is repayable within one year.

The Group's total interest bearing bank and other borrowings for the continued operations of approximately HK$28,461,000 are denominated in Renminbi ("RMB") and HK$49,951,000 are denominated in HK$ are both charged at floating interest rates, and HK$336,000,000 denominated in HK$ is charge at fixed rate. The Group's cash and bank balances of the continued operations of approximately HK$43,579,000 were 98% denominated in RMB, 0% in USD and 2% in HK$.

As at 31 December 2018, the convertible bonds with the aggregate principal amount of HK$300,000,000 was matured and become an other borrowing as it is not redeemed at maturity date. Combining the unsettled interests, the total amount of other borrowings was HK$336,000,000. An other borrowing (2017: the convertible bond amounted to HK$300,000,000) is denominated in HK$ and bear interest at fixed interest rate of 6% per annum.

TREASURY POLICY

The Group adopts a conservative approach towards its treasury policy. The Group strives to reduce exposure to credit risk by performing ongoing credit evaluation of the financial condition of its customers. To manage liquidity risk, the Board closely monitors the Group's liquidity position to ensure that the liquidity structure of the Group's assets, liabilities and commitments can meet its funding requirements.

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

During the year under review, there was no material acquisition or disposal of subsidiaries and affiliated companies.

EMPLOYEES

As at 31 December 2018, the total number of employees of the Group was approximately 50 (31 December 2017: 60). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation, the Group has adopted a new share option scheme subsequent to the lapse of the old share option scheme in June 2017. As at 31 December 2018 and 31 December 2017, there were no outstanding share options granted under the new scheme.

CHARGE OF GROUP ASSETS

As at 31 December 2018, a property with a carrying value of approximately HK$12,688,000 (31 December 2017: HK$13,030,000) are pledged as securities for the Group's banking facilities.

GEARING RATIO

As at 31 December 2018, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 33% (31 December 2017: approximately 29%). Net debt represents the aggregate amount of the Group's interest-bearing bank and other borrowings, the liability component of convertible bonds, the non-current portion of the amount loans due to related parties and promissory note less cash and cash equivalents of the Group. Total capital represents total equity attributable to the owners of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

The Group's reporting currency is denominated in HK$. The Group's monetary assets, loans and transactions were principally denominated in RMB, USD and HK$. The Group had a net exchange exposure to RMB as the Group's assets were principally located in the PRC and the revenues were in RMB.

The Group does not have any derivative financial instruments or hedging instruments. The Group will constantly review the economic situation and its foreign currency risk profile, and will consider appropriate hedging measures in future as may be necessary.

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2018 (2017: Nil).

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cai Jianjun, aged 60, was appointed as a non-executive Director and president on 1 November 2017 and was re-designated as an executive Director and appointed as the chairman of the Board and the chairman of the executive committee on 25 January 2019. He is also the managing director of Wulanchabu Integrated Logistics Park Company Limited ("Wulanchabu"), of which the Group has 40% equity interest. Before joining Wulanchabu, Mr. Cai was the chief executive of Titan Petrochemicals Group Limited for the year 2012, he was a president of Pan American Union Oil & Gas Inc., from 2006 to 2011 and had actively participated in several large-scale petrochemical projects in China, he was the general manager of Beijing China Post Heng Ren Investment Company Limited from 2004 to 2006 and was mainly responsible for restructuring and assessing non-core assets of China Post. He was the general manager of Shen Zhen Yi Heng Investment Company Ltd. from 1993 to 2003 and was responsible for financial investments for several large construction projects in China on ports, highways, city infrastructure together with water and gas utilities. He was also the head of Southern China Office (Shenzhen), Hua Zong Economic Development Centre. Mr. Cai has extensive experience in project investment and development. Mr. Cai graduated from the Wuhan University of Technology in China.

Mr. Zhao Cheng Shu, aged 55, was appointed as an executive Director on 2 April 2009. He is also the deputy chairman of the Company. Mr. Zhao is an economist and a senior engineer and has extensive experience in management of sizeable enterprises in the PRC. He is a specialist in corporate management and an entrepreneur. He is also the Deputy President of the Chamber of Industrial and Commerce of Xiaoyi City of Shanxi Province, Mr. Zhao has contributed a lot to the society and thus been awarded many honourable titles and prizes, including "Advance Worker Assisting Economic Development of Private Enterprises of Luiliang City of Shanxi Province", "Outstanding Technology Entrepreneur of Private Enterprise of Shanxi Province", "Outstanding Person in Pushing Relief from Poverty for the Society" of Shanxi Province, "Role Model for Labour in Shanxi Province", "National Model for Labour", "Medalist of Labour Day in Shanxi Province" "National Youth Spark Leader" and "National Township Entrepreneur" granted by Ministry of Science and Technology of PRC (國家科技部) etc. Mr. Zhao holds a Master degree in Enterprise Management specialising in Industrial Economics awarded by the Graduate School of China Institute of Social Science (中國社會科學院) and obtained a Doctor of Business Administration from University of Management & Technology in the United States of America.

Mr. Wang Xiusong, aged 38, was appointed as an executive Director and a member of each of the executive committee and the nomination committee of the Company on 1 November 2018. Mr. Wang graduated from the Loughborough University in U.K. and was awarded a Master Degree in Finance and Management. He has over 13 years of experiences in the finance investment industry. He worked with the Investment Banking Department of First Capital Securities Co. Ltd. for around four years, where he was responsible for securities sponsoring and issuance. Before joining China Huarong International Holdings Limited ("Huarong International") in 2014, Mr. Wang worked with the Equity Department of China Cinda Asset Management Co., Ltd., where he was responsible for equity investment. He served as the assistant to general manager and a deputy general manager of the Risk Management Department of Huarong International. He currently serves as the deputy general manager of the Investment Banking Department of Huarong International. Huarong International is a subsidiary of China Huarong Asset Management Co., Ltd., whose shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). China Huarong Investment Management Limited is a subsidiary of Huarong International and a substantial shareholder of the Company.

Biography of Directors and Senior Management

Ms. Zhang Rui, aged 38, was appointed as an executive Director and a member of the executive committee of the Company on 25 January 2019. Ms. Zhang holds a master degree in Business Administration from Shanghai University of Finance and Economics. She was engaged in the duties relating to risk management in Ping An Bank Shenzhen Branch and China Resources SZITIC Trust Co., Ltd. successively, with over ten years of work experience in the finance industry. She joined Huarong International in 2015 as a manager, assistant to general manager and deputy general manager of post-investment management department of Huarong International. She is currently a deputy general manager of risk management department (assets security) of Huarong International. Huarong International is a subsidiary of China Huarong Asset Management Co., Ltd., whose shares are listed on the Main Board of the Stock Exchange. China Huarong Investment Management Limited, a subsidiary of Huarong International, is a substantial shareholder of the Company.

NON-EXECUTIVE DIRECTOR

Mr. Zhou Hao, aged 33, was appointed as a non-executive Director on 28 February 2019. Mr. Zhou graduated from Wuhan University with a Bachelor of Arts degree and from Huazhong University of Science and Technology with a Bachelor of Arts degree. He also obtained a Master of Arts degree from The Ohio State University and a Juris Doctor degree from Fordham University. Mr. Zhou was admitted as an attorney and counsellor-at-law in the State of New York of the United States and was qualified to practise law in the People's Republic of China. Mr. Zhou joined Huarong International in 2019 and is currently a legal counsel at the legal department of Huarong International. Before joining Huarong International, Mr. Zhou worked in Baker & McKenzie's Hong Kong office as a registered foreign lawyer (New York, USA) and Grandall Law Firm's Shanghai office as a foreign lawyer. Huarong International is a subsidiary of China Huarong Asset Management Company Limited, the shares of which are listed on the main board of the Stock Exchange. China Huarong Investment Management Limited, a subsidiary of Huarong International, is a substantial shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Choy So Yuk, *BBS, JP*, aged 68, was appointed as an independent non-executive Director on 5 June 2009 and is also a member of each of the audit committee, the nomination committee and the remuneration committee of the Company. She obtained her Bachelor of Science and Master of Philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a wide variety of political, social and academic positions, such as a deputy of the National People's Congress of China and a director of Fujian Middle School. Ms. Choy was a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference and a member of the Legislative Council in Hong Kong from 1998 to 2008. Ms. Choy was an independent non-executive director of Blockchain Group Company Limited) from August 2002 to October 2017. Ms. Choy is an independent non-executive director of Evershine Group Holdings Limited, a company listed on the Stock Exchange since 12 May 2015.

Biography of Directors and Senior Management

Mr. Leung Yuen Wing, aged 51, was appointed as an independent non-executive Director on 1 November 2012. He is also the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee of the Company. Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Chartered Association of Certified Accountants. He had held managerial positions in various renowned accounting firms, an investment bank and enterprises including listed companies and had been an independent non-executive director of a company listed on the main board of the Stock Exchange for about 10 years to June 2013. Mr. Leung is currently the chief financial officer of a glass manufacturing company. Mr. Leung had been the company secretary and authorized representative of the Company, and he left the Group in February 2010.

Mr. Wu Zhao, aged 41, was appointed as an independent non-executive Director on 16 June 2016. He is also a member of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Wu obtained a bachelor degree in Engineering (Chemical) from the University of Queensland, Australia. He also obtained a master of commerce in applied finance and a master of information technology from the University of Queensland, Australia. He has approximately 13 years of experience in finance, information technology, investment and funds management. He currently is an independent non-executive director of Royal Century Resources Holdings Limited (stock code: 8125), a company listed on the Growth Enterprise Market of the Stock Exchange.

Mr. Zhu Dengkai, aged 40, was appointed as an independent non-executive Director with effect from 1 January 2017. He is also a member of each of the audit committee and the nomination committee, and the chairman of the remuneration committee of the Company. Mr. Zhu obtained a bachelor of laws degree in international law from Zhongnan University of Economic and Law in the PRC in 2000, a master of laws degree in European law from Université Paris1–Panthéon Sorbonne in France in 2004, and a master of laws degree in international law from the school of law of Renmin University of China in 2005. He has over 10 years of experience as a practicing lawyer and is registered as a registered lawyer in the PRC. He was a practicing lawyer in King & Wood from April 2005 to August 2007 and in Jun He Law Offices from September 2007 to August 2010. Mr. Zhu is currently a senior partner in Zhonglun W&D Law Firm. He is also a member of China Lawyers Association and the contact person of a global lawyers union, INTERLAW, in Beijing, the deputy chairman and deputy editor of Taihe Global Institute and the chairman of Beijing Benevolent Foundation.

Biography of Directors and Senior Management

Mr. Liu Wei, aged 63, was appointed as an independent non-executive Director on 1 November 2017 and is currently the chairman of the nomination committee of the Company. Mr. Liu obtained a bachelor degree in Computing Mathematics from Jilin University and a master degree in Applied Mathematics from Dalian Maritime University. He is currently a professor and tutor of doctoral students in Dalian Maritime University. Mr. Liu was the Dean of the Professional Degree Education College in Dalian Maritime University, Dean of the Advanced Research Institute of Transportation in Dalian Maritime University and Dean of Shenzhen Research Institute in Dalian Maritime University and mainly engaged in researches on Applied Mathematics, Management Science and Engineering. He has completed a number of scientific research projects at provincial and ministerial levels which are supported by the National Natural Science Foundation of China. His research works titled "Decision Support System for Enhancing Economic Benefits of Tianjin Port" and "Research on the Life Cycle of Port as Driving Economy" were awarded the Third Prize in Technology Advancement by the Ministry of Communications of Liaoning Province and the Third Price in Technology Advancement of Liaoning Province. Mr. Liu also took a leading role in completing the project titled "Arithmetic Methodology of Extenics Information and its Applications in the Logistics Information System" funded by the National Natural Science Foundation of China; he also led the charge in preparing for the technological projects under the Shenzhen Communications Bureau, including "Studies on the Indication System for Comprehensive Competitiveness Review of Shenzhen Port" and "The Thirteenth Five-Year Plan of Shandong High-Speed Logistics Group". Mr. Liu is currently the Officer of Academic Committee in Extenics of Chinese Association of Artificial Intelligence, a member of the Disciplines Evaluation Panel of the Degree Committee of Liaoning Province and the Head of the School of Applied Mathematics in Dalian Maritime University.

Mr. Zou Mingwu, aged 64, was appointed as an independent non-executive Director on 25 January 2019. Mr. Zou holds a master degree and is a senior economist. Since 2007, he has been a senior vice president and president of China region of Baoneng Group in Shenzhen, as well as the chairman of Baoneng City Development and Construction Company Limited (寶能城市發展建設集團) in Shenzhen. From 1994 to 2007, he served as the general manager and chairman of Shahe Industrial Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code: A0014). From 1990 to 1994, he served as a deputy general manager of Shenzhen Properties & Resources Development (Group) Ltd. (Shenzhen Properties A (深物業A). From 1987 to 1990, he served as a researcher in the research center of Hong Kong Office of Xinhua News Agency. He had studied in the Party School of the Central Committee of the Communist Party of China, Marxism and Leninism in Beihua University Teacher's College and in the postgraduate programme of Beihua University Teacher's College and Jilin University.

SENIOR MANAGEMENT

Mr. Kwok Kam Tim, aged 42, joined the Company in 2008 and is currently the chief financial officer of the Company. He was the company secretary and authorized representative of the Company from February 2010 to March 2013. Mr. Kwok is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators. Mr. Kwok holds a Bachelor of Engineering degree from The Hong Kong University of Science and Technology, a Bachelor of Arts degree in Accountancy and a Master degree in Corporate Governance from The Hong Kong Polytechnic University. He had worked in an international accounting firm and has over 16 years of experience in accounting, auditing and financial management. Currently, Mr. Kwok is an independent non-executive director of Newtree Group Holdings Limited (stock code: 1323), the shares of which is listed on the main board of the Stock Exchange. He was also the independent non-executive director of Capital Finance Holdings Limited (stock code: 8239) during October 2009 to September 2015, and the independent non-executive director of China Ocean Fishing Holdings Limited (Formerly known as "Sky Forever Supply Chain Management Group Limited") (stock code: 8047) from June 2014 to July 2014, both companies were listed on the growth enterprise market of the Stock Exchange.

Corporate Governance Report

For the year ended 31 December 2018

The board of directors of the Company (the “Board”) is pleased to present the corporate governance report for the year ended 31 December 2018.

A. CORPORATE GOVERNANCE PRACTICES

The Board is committed to raising the standard of corporate governance within the Group at all times and believes that good corporate governance helps the Group safeguard the interests of its shareholders and improve its performance.

In the opinion of the directors of the Company (the “Directors”), the Company has complied with the respective code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2018, except for the following deviations:

Code Provision A.2.1

Under code provision A.2.1, the role of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ding Zhiyi acted as the chairman of the Company (the “Chairman”) and the chief executive officer of the Company (the “CEO”) with effect from 1 November 2017. The Board considered that vesting the roles of both chairman and chief executive officer in one person would facilitate the effective implementation and execution of its business strategies by and ensure a consistent leadership, for the Group. Further, a balance of power and authority between the Board and the management could be ensured by the operation of the Board. The Company will from time to time review the structure and composition of the Board to ensure that a balance of power and authority between the Board and the management is appropriately maintained for the Group. After vesting the role of chairman and the chief executive officer in one person for more than one year, the Company noted that separation of the two roles would be more appropriate and benefit to the Company. By separation of the roles, the Chairman can focus on the strategic planning and development of the Group and the chief executive officer is responsible for the day to day management, oversees the Group’s operational activities and implementation of development plans. In January 2019, Mr. Ding Zhiyi resigned as an executive Director, the Chairman and the CEO, and Mr. Cai Jianjun (“Mr. Cai”) was re-designated from non-executive Director to executive Director and was appointed the Chairman. Dr. Fang Gang would be appointed the CEO with effect from the issuing of the working permit by the Immigration Department. The role of the chairman and the chief executive officer is separate and not performed by the same person.

Code A.2.7

Under Code A.2.7, the chairman should at least annually hold meetings with non-executive directors (including independent non-executive directors) without executive director present.

During the year 2018, the Chairman had not met with the non-executive Directors without the executive Directors present. The Chairman intended that all the non-executive Directors could attend the meeting and started to arrange a meeting from November 2018. The meeting was finally fixed and held in late January 2019. The Chairman met all independent non-executive Directors (“INEDs”) (except Mr. Wu Zhao who was not in Hong Kong for the whole month of January 2019) in Hong Kong without the presence of executive Directors. The Chairman will arrange a meeting with Mr. Wu in the coming months. The Chairman encourages the INEDs to meet him any time when they think required, and he will schedule meeting at such times convenience to the INEDs.

Code Provision A.4.1

Under code provision A.4.1, non-executive directors should be appointed for a specific term and be subject to re-election. Mr. Leung Yuen Wing and Ms. Choy So Yuk, both the INEDs were not appointed for a specific term. However, all Directors are subject to the retirement provisions in accordance with the bye-laws of the Company (the "Bye-laws") which provides that one-third of the Directors for the time being shall retire from office by rotation and every Director shall be subject to retirement at least once every three years.

Code Provisions A.6.7

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders. In addition, code provision E.1.2 provides that the chairman of the board should attend the annual general meeting.

Mr. Ding Zhiyi, the chairman of the Board and the chairman of the nomination committee of the Company (the "Nomination Committee") at the time of convening the 2018 annual general meeting (the "2018 AGM"), Mr. Zhu Dengkai, Mr. Leung Yuen Wing, Ms. Choy So Yuk and Mr. Liu Wei, all being the INEDs, had not attended the 2018 AGM as they were not in Hong Kong or due to other commitments which must be attended to by them.

Mr. Ng Tze For, an executive Director at the time of the 2018 AGM, Mr. Cai, a non-executive Director at the time of the 2018 AGM and Mr. Wu Zhao, an INED and a member of each of the Remuneration Committee, the Nomination Committee and Audit Committee, had attended the 2018 AGM and answered questions from the shareholders of the Company.

Code Provision A.7.1

Under code provision A.7.1, for regular board meetings, and as far as practicable in all other cases, an agenda and accompanying board papers should be sent, in full, to all directors at least 3 days before the intended date of a board meeting or board committee meeting. Since additional time was required to prepare the board papers for the meetings, the board papers were not sent to all Directors 3 days before such meetings. The Company will arrange the board meeting papers at the earliest possible time in the future.

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2018.

On 25 January 2019 and subsequent to the period under review, China Huarong Investment Management Limited ("Huarong Investment"), being a substantial shareholder of the Company, entered into a put option deed (the "Put Option Deed") with China Yangtze River Petrochemical Group Limited ("CYRP"), pursuant to which, Huarong Investment may put any or all shares of the Company it held to CYRP (the "Dealing"). Mr. Cai, the chairman of the Board, is the sole legal and beneficial owner of CYRP.

Mr. Cai, through his company, inadvertently and unintentionally breached the relevant rules at the Model Code. Save and except the Dealing, Mr. Cai has confirmed to the Company that (i) he has not otherwise acquired, disposed of or dealt in any shares in the Company at the material time, and (ii) he has not received any notice in relation to the exercise of the put option pursuant to the Put Option Deed by Huarong Investment. As a remedial action, Mr. Cai has served a formal written notice to the Board, and a separate board meeting has been convened to record the circumstances.

The Company has paid due regard to the aforementioned non-compliance incident. With a view to ensuring compliance with the Listing Rules and the Model Code, (i) a copy of the Model Coe and a sample notification form in respect of dealing of shares of the Company were circulated for all Directors' reference, and (ii) the Company provided a briefing of the Model Code and the procedure of notification to all Directors in March 2019 and reminded them of their obligations under the Model Code. In addition, the Company will provide all Directors, including Mr. Cai, who agreed to attend, a directors' training to be conducted by a professional law firm for the purpose of reinforcing the Directors' knowledge and awareness of the requirements and restrictions regarding dealings of shares by directors and their duties as directors in general.

C. BOARD OF DIRECTORS

During the year and after the reporting period, there were changes to the composition of the Board. On 1 November 2018, Mr. Ng Tze For and Mr. He Fengnian resigned as executive Directors and Mr. Wang Xiusong was appointed as executive Director. On 25 January 2019, Mr. Ding Zhiyi resigned as executive Director, the Chairman and the CEO, Mr. Cai was re-designated from non-executive Director to executive Director and was appointed as the Chairman, Ms. Zhang Rui was appointed as executive Director, Mr. Chan, Victor Sun Ho was appointed as non-executive Director and Mr. Zou Mingwu was appointed as INED. On 28 February 2019, Mr. Chan, Victor Sun Ho resigned as non-executive Director and Mr. Zhou Hao was appointed as non-executive Director. The Board currently comprises four executive Directors, namely Mr. Cai (the Chairman), Mr. Zhao Cheng Shu (the deputy Chairman), Mr. Wang Xiusong and Ms. Zhang Rui; one non-executive Director, namely Mr. Zhou Hao, and six INEDs, namely Ms. Choy So Yuk, Mr. Leung Yuen Wing. Mr. Wu Zhao, Mr. Zhu Dengkai, Mr. Liu Wei and Mr. Zou Mingwu.

The Board, led by the Chairman, is responsible for formulating the Group's overall strategy, sets the business directions and monitors the performance of the Group's businesses. The Board is accountable to the shareholders of the Company for its performance and activities and is the ultimate decision-making body of the Group except for those matters that are reserved for approval by shareholders in accordance with the Bye-laws, the Listing Rules and other applicable laws and regulations.

The management has been delegated the authority and responsibility by the Board for the day-to-day operations and management of the Group. It works under the leadership and supervision of the chief executive officer to implement the Board's decisions, makes business proposals and is accountable to the Board. In addition, the Board has delegated various responsibilities to Board committees, further details of these committees are set out in this report. The Board reserves the authority to approve interim and annual financial statements, dividend policy, business plans and material investment decisions.

During the year, 8 Board meetings and the 2018 AGM were held. The attendance records of individual Director are as follows:

Directors	Board Meetings No. of meetings attended/held	2018 AGM No. of meeting attended/held
Executive Directors		
Mr. Ding Zhiyi *(Chairman and CEO,* resigned on 25 January 2019)	3/8	0/1
Mr. Zhao Cheng Shu *(Deputy Chairman)*	5/8	0/1
Mr. Wang Xiusong (appointed on 1 November 2018)	0/1	0/0
Mr. He Fengnian (resigned on 1 November 2018)	0/7	0/1
Mr. Ng Tze For (resigned on 1 November 2018)	6/7	1/1
Non-executive Director		
Mr. Cai Jianjun (re-designated from non-executive Director to executive Director and was appointed as the Chairman on 25 January 2019)	7/8	1/1
Independent Non-executive Directors		
Ms. Choy So Yuk	8/8	0/1
Mr. Leung Yuen Wing	8/8	0/1
Mr. Wu Zhao	5/8	1/1
Mr. Zhu Dengkai	8/8	0/1
Mr. Liu Wei	8/8	0/1

Throughout the year ended 31 December 2018, the Company met at all times the requirements of the Listing Rules to have at least three INEDs representing at least one-third of the Board and with at least one INED possessing appropriate accounting and financial management expertise and professional qualifications.

The Company has received from its INEDs annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules. Each of the INEDs (except Ms. Choy So Yuk ("Ms. Choy")) has served the Company for not more than 9 years. The Board has assessed their independence and concluded that all the INEDs are independent.

Ms. Choy has served as an INED for more than nine years. In addition to her confirmation of independence pursuant to Rule 3.13 of the Listing Rules, Ms. Choy continues to demonstrate the attributes of an independent non-executive director and there is no evidence that her tenure has had any impact on her independence. Ms. Choy is not involved in the daily management of the Group nor in any relationships or circumstances which would interfere with the exercise of her independent judgment. The nomination committee of the Company has assessed and is satisfied of Ms. Choy's independence. In view of Ms. Choy holds a wide variety of political, social and academic positions, which the Board believes that she is capable to provide constructive contributions as well as wide spectrum of independent opinion to the Company. Hence, the Board is of the opinion that Ms. Choy has the required charter, integrity, experience and knowledge to continue fulfilling the role of an independent non-executive Director effectively and is of the opinion that Ms. Choy remains independent and believes that her experience continues to generate significant contribution to the Company and the Shareholders as a whole.

Biographical details of all Directors are disclosed in the section headed "Biography of Directors and Senior Management" in this Annual Report. To the best knowledge of the Company, there are no financial, business, family or other material or relevant relationships amongst members of the Board.

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

An induction would be given to the newly appointed Director(s) to provide information regarding the business and operation of the Company and as well as his responsibilities under the Listing Rules and relevant regulations.

During the year under review, the Company has provided reading materials to the Directors to update them on the latest developments and changes to the Listing Rules and the Guidance for Board and Directors published by the Stock Exchange. Mr. Leung Yuen Wing also attended other seminars/training courses relevant to his profession and duties as a director.

Directors' training is an ongoing process, all Directors are encouraged to attend relevant training courses at the Company's expenses. Directors are requested to provide records of training they received to the company secretary of the Company (the "Company Secretary") for records.

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The CG Code requires that the roles of chairman and chief executive officer should be separated and performed by different individuals.

Mr. Ding Zhiyi acted as the Chairman and CEO during the year under review. The Chairman is responsible for the leadership of the Board formulating the Group's strategic planning and development, ensuring its effectiveness in all aspects of its role. The CEO is responsible for the day-to-day management and operation of the Group's business. The Board considered that vesting the roles of both Chairman and CEO in the same person would facilitate the effective implementation and execution of its business strategies by, ensure a consistent leadership for, the Group. Further, a balance of power and authority between the Board and the management can be ensured by the operation of the Board. After vesting the role of chairman and the chief executive officer in one person for more than one year, the Company noted that separation of the two roles would be more appropriate and benefit to the Company. By separation of the roles, the Chairman can focus on the strategic planning and development of the Group and the chief executive officer is responsible for day to day management, oversees the Group's operational activities and implementation of development plans. In January 2019, Mr. Ding Zhiyi resigned as an executive Director, the Chairman and the CEO and Mr. Cai was re-designated from non-executive Director to executive Director and was appointed as the Chairman and Dr. Fang Gang would be appointed as the CEO with effect from the issuing of the working permit by the Immigration Department. Thereafter, the role of the chairman and the chief executive officer would separate and not performed by the same person. The Company will from time to time review the structure and composition of the Board to ensure that a balance of power and authority between the Board and the management is appropriately maintained for the Group.

E. NON-EXECUTIVE DIRECTORS

As mentioned in Paragraph A above, two of the existing INEDs, namely Ms. Choy and Mr. Leung Yuen Wing are not appointed for a specific term but are subject to the retirement provisions in the Bye-laws which provides that every Director (including the INEDs) shall be subject to retirement at least once every three years.

F. BOARD COMMITTEES

The Board has established four committees, details of which are set out below.

Executive Committee

The composition of the Executive Committee has changed following the resignation and appointment of the Directors during the reporting period. Mr. He Fengnian and Mr. Ng Tze For ceased to act as members of the executive committee of the Company (the "Executive Committee") following their resignation as executive Directors with effect from 1 November 2018, and Mr. Wang Xiusong was appointed a member of the Executive Committee on 1 November 2018. After the reporting period, Mr. Ding Zhiyi ceased to act as the chairman of the Executive Committee following his resignation as an executive Director on 25 January 2019, and Mr. Cai and Ms. Zhang Rui was appointed as a member of the Executive Committee on 25 January 2019. Currently, the Executive Committee comprises three executive Directors, namely Mr. Cai (the chairman), Mr. Wang Xiusong and Ms. Zhang Rui. The Executive Committee was established to assist the Board in execution of its duties and to facilitate effective management. It has a written terms of reference under which certain functions, including the daily operation and management functions have been delegated to it.

Remuneration Committee

The Remuneration Committee currently comprises four INEDs, namely Mr. Zhu Dengkai (as chairman), Ms. Choy, Mr. Leung Yuen Wing and Mr. Wu Zhao. The terms of reference of the Remuneration Committee are available on the respective websites of the Company and the Stock Exchange.

The Remuneration Committee will meet at least once a year to discharge its responsibilities. The major roles of the Remuneration Committee are as follows:

(i) 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;

(ii) ensure that no Director or any of his/her associates is involved in deciding his/her own remuneration; and

(iii) make recommendations with respect to the remuneration of the Directors and the senior management of the Company for approval by the Board.

The Group's remuneration policy has been formulated with reference to the market practice and the qualification, duties and responsibilities of Directors and employees. In order to attract, retain, and motivate personnel of the required quality to manage the Company successfully, the Company adopted a new share option scheme in 2017 upon the expiry of the old share option scheme adopted in 2007 to reward those eligible participants who contribute to the success of the Group's operations.

During the year, the Remuneration Committee held one meeting and the attendance of individual members of the Remuneration Committee at the meeting is set out below:

Committee Members	Number of meetings attended/held
Mr. Zhu Dengkai (chairman)	1/1
Ms. Choy So Yuk	1/1
Mr. Leung Yuen Wing	1/1
Mr. Wu Zhao	0/1

During the year, the Remuneration Committee considered the policy for the remuneration of the Directors, reviewed and made recommendation to the Board on the remuneration packages of the Directors. Details of the remuneration of each of the Directors and the senior management for the year are set out in Note 10 (Directors' and Chief Executive's Remuneration) and Note 11 (Five Highest Paid Employees) of the consolidated financial statements.

Nomination Committee

As at 31 December 2018, the Nomination Committee comprised Mr. Ding Zhiyi (the chairman of the Board and the Nomination Committee), Mr. Wang Xiusong (an executive Director), and five INEDs, namely Ms. Choy, Mr. Leung Yuen Wing, Mr. Wu Zhao, Mr. Zhu Dengkai and Mr. Liuwei. Mr. He Fengnian ceased to act as a member of the Nomination Committee following his resignation as an executive Director on 1 November 2018. After the reporting period, Mr. Ding Zhiyi ceased to act as the chairman of the Nomination Committee following his resignation as an executive Director. Mr. Liuwei, an INED and a member of the Nomination Committee, was appointed the chairman of the Nomination Committee after the resignation of Mr. Ding Zhiyi. The Nomination Committee currently comprises five INEDs, namely Mr. Liu Wei (the chairman), Mr. Leung Yuen Wing, Ms. Choy, Mr. Wu Zhao, Mr. Zhu Dengkai and one executive Director, namely Mr. Wang Xiusong. The terms of reference of the Nomination Committee is available on the respective websites of the Company and the Stock Exchange.

The main duties and responsibilities of the Nomination Committee are as follows:

(i) review the structure, size, diversity and composition of the Board and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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

(iii) assess the independence of independent non-executive Directors;

(iv) make recommendations to the Board on the appointment or re-appointment of Directors; and

(v) review the Board Diversity Policy and the measurable objectives that the Board had set for implementing the Board Diversity Policy, and the progress on achieving the objectives.

During the year, the Nomination Committee held two meetings and the attendance of individual member of the Nomination Committee at the meetings is set out below:

Committee Members	Number of meetings attended/held
Mr. Ding Zhiyi (chairman, resigned on 25 January 2019)	2/2
Mr. Liuwei (act as the chairman from 25 January 2019)	2/2
Ms. Choy So Yuk	2/2
Mr. Leung Yuen Wing	2/2
Mr. Wu Zhao	1/2
Mr. Zhu Dengkai	2/2
Mr. Wang Xiusong (appointed on 1 November 2018)	1/1
Mr. He Fengnain (resigned on 25 January 2019)	0/1

In 2018, the Nomination Committee reviewed the structure, size and composition of and diversity (including the evaluation of skill, knowledge, cultural and education background, professional experience, age, gender and length of services of the Board members) of the Board and the Board Diversity Policy. The Nomination Committee considered the Board to possess a diversity of perspectives which is appropriate to the Group's requirement. The Nomination Committee also reviewed the independence of INEDs, and discussed and approved recommending to the Board the appointment of an executive Directors and satisfied all INEDs have met the independence criteria set out in Rule 3.13 of the Listing Rules.

The Nomination Committee has a policy for nomination of Directors. Appointment and re-appointment of Directors are made in accordance with the Bye-laws, the Listing Rules and other applicable rules. For appointing Directors, the Nomination Committee will make assessment to the candidates including reviewing the personal particulars of the candidates, statement or other reference materials provided by the candidate or third parties, and will meet to discuss and assess the suitability of individuals nominated for directorship. The Nomination Committee will consider among other criteria, the reputation for integrity, experience, qualifications, skill, time commitment and attention to the businesses of the Company, the diversity of perspectives, including the measurable objectives stated in the Board Diversity Policy. If the Nomination Committee considers the nominated candidate is suitable for appointment as a director of the Company, it will recommend to the Board for approval. The Board shall review and determine appointment of directors by taking the Nomination Committee's recommendation into consideration.

Board Diversity Policy

The Company recognizes the benefits of diversity in Board members. With a view to achieving a sustainable and balanced development, the Company sees diversity at the Board level as an essential element in supporting the attainment of its sustainable development. The Board has adopted a Board Diversity Policy in 2013 which sets out the approach to achieve diversity on the Board. The Company seeks to achieve Board diversity through the consideration of a number of measurable objectives. The ultimate decision will be based on merit and contribution that the selected candidates will bring to the Board.

The Board has set measurable objectives based on a range of diversity perspective, including but not limited to skills, knowledge, cultural and educational background, professional experience, age, gender and length of service for implementing the Board Diversity Policy. All Board appointments will be based on meritocracy and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. The measurable objectives will be reviewed from time to time to ensure their appropriateness and the progress on achieving the objectives and make recommendations on any proposed changes to complement the Company's corporate strategy.

Audit Committee

The Audit Committee currently comprises four members, namely Mr. Leung Yuen Wing (as chairman), Ms. Choy, Mr. Wu Zhao and Mr. Zhu Dengkai, all being the INEDs. The chairman of the Audit Committee has the appropriate professional qualification as required by the Listing Rules. The Audit Committee has a written terms of reference. The terms of reference are available on the respective websites of the Company and the Stock Exchange.

The major roles of the Audit Committee are as follows:

(i) consider and recommend the independence, remuneration, appointment, re-appointment and removal of external auditor;

(ii) review the independence and objectivity of the external auditor and the effectiveness of the audit process in accordance with applicable standards;

(iii) review the financial information, the financial and accounting policies and practices;

(iv) oversee financial reporting system, risk management and internal control systems and the effectiveness of the internal audit function; and

(v) review connected party transactions.

During the year under review, the Audit Committee held three meetings to review and discuss internal control systems, financial reporting matters and other areas of concerns during the audit. It also reviewed the Group’s annual and interim report for the year with recommendations to the Board for approval, reviewed the independence of the external auditors, discussed with the management and the external auditor the accounting policies and practices which may affect the Group, reviewed the continuing connected transactions. Furthermore, it also reviewed the internal audit and the risk management system of the Company. The attendance record of individual member of the Audit Committee at these meetings is set out in the following table:

Committee Members	Number of meetings attended/held
Mr. Leung Yuen Wing *(chairman)*	3/3
Ms. Choy So Yuk	3/3
Mr. Wu Zhao	2/3
Mr. Zhu Dengkai	3/3

The Audit Committee focuses not only on the impact of the changes in accounting policies and practices but also on the compliance with accounting standards, the Listing Rules and the legal requirements in the review of the Company's interim and annual reports.

The audited financial statements and the annual report of the Company for the year ended 31 December 2018 have been reviewed by the Audit Committee.

G. CORPORATE GOVERNANCE FUNCTIONS

The Board is collectively responsible for performing the corporate governance duties which include developing, reviewing and implementing the Company's policies, practices on corporate governance, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements and the shareholders' communication policy. During the year, the Board reviewed the Company's policies on corporate governance, the Board Diversity Policy, disclosure of inside information guideline, disclosure of discloseable transaction and connected transaction guideline, compliance with the CG Code, and disclosure in the corporate governance report.

H. AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit services provided to the Company and its subsidiaries by the auditor of the Company amounted to HK$750,000 (2017: HK$1,620,000), and other non-audit service provided to the Company for the year 2018 amounted to HK$100,000 (2017: HK$1,980,805).The non-audit service for the year 2018 was for providing advisory services to the Group.

I. FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the year ended 31 December 2018, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable; and have prepared the consolidated financial statements on a going concern basis.

The Directors confirm that, having made all reasonable enquiries, that to the best of their knowledge, information and belief, they are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Group's ability to continue as a going concern.

The statement made by CCTH CPA Limited, the independent auditor of the Company, about their reporting responsibilities on the consolidated financial statements of the Group is set out in the "Independent Auditors' Report " in this Annual Report.

J. RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness. The Board is also responsible for establishing and maintaining appropriate and effective risk management and internal control systems. The established 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 under review, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects of the Group in order that the systems are practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The systems were considered effective and adequate to safeguard the interests of the shareholders' investment.

The Group adopts a complete process style of risk management in a functional bottom up manner, including risk identification, assessment, evaluation and treatment. The functional areas across the Group provide input of risks with treatments, which are appraised and maintained. The risk management system, as well as the internal control system, are continuous, proactive and systematic processes.

The internal audit function of the Group is governed by an appointed professional with Certified Internal Auditor qualification. With the appointment of Chief Audit Executive, the effectiveness of the risk management and internal control systems is reviewed by conducting internal audit assignments. Recommendations for major observations of control weaknesses from the audits will be provided, so as to resolve material internal control defects.

Policies and Procedures for handling and dissemination of inside information had been established and are in order to facilitate the escalation of information to the responsible person for determining the need of disclosure.

K. COMPANY SECRETARY

Ms. Chiu Yuk Ching, the Company Secretary, is a full time employee of the Company and has day-to-day knowledge of the Company's affairs. During the year under review, the Company Secretary has duly complied with the relevant professional training requirement under Rule 3.29 of the Listing Rules.

L. SHAREHOLDERS' RIGHTS

Convening a general meeting

Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the Company Secretary, to require a special general meeting to be called by the Board for the transaction of any business specified in such requisition. The requisition must be signed by the requisitionists and deposit at the principal place of business of the Company in Hong Kong.

The meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves, or any of them representing more than one half of the total voting rights of all of them, may themselves convene a meeting, but any meeting so convened shall not be held after the expiration of three months from the said date.

Putting enquiries to the Board

Shareholders may send their enquiries and concerns to the Board by addressing them to the Company Secretary and deposit at the Company's principal place of business in Hong Kong or by e-mail to enquiry@srlhl.com.

Putting forward proposal at general meeting

The shareholders holding not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right to put forward proposals at an annual general meeting or special general meeting. The proposal must be made in writing and contain detail contact information and submit to the Company Secretary at the Company's principal place of business in Hong Kong. The procedure for putting forward proposals at general meeting is available on the website of the Company.

M. COMMUNICATION WITH SHAREHOLDERS

The Company acknowledges the importance of communicating with shareholders and investors. A shareholders' communication policy was adopted in March 2012. The primary communication channel between the Company and its shareholders is through the publication of announcements, circulars, interim and annual reports. These publications can be obtained from the Company's website.

In addition, Shareholders are encouraged to attend the Company's annual general meeting which provides a useful forum for shareholders to exchange views with the Board. Notice of annual general meeting together with the meeting materials are dispatched to all shareholders not less than 20 clear business days prior to the meeting. The Directors and external auditor are available to answer questions of the Group's business at the meeting. Separate resolutions are proposed at general meeting on each substantially separate issue, including the election of individual directors.

The Company has also complied with the requirements of the Listing Rules and the Bye-laws in respect of voting by poll and other related matters.

N. INVESTOR RELATIONS

There was no change to the Company's Bye-laws during the financial year 2018. A copy of the latest Bye-laws are posted on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

REPORTING SCOPE

Silk Road Logistics Holdings Limited ("Silk Road Logistics") is an investment holding company. Silk Road Logistics and its subsidiaries (the "Group") are principally engaged in logistics and warehousing, commodity trading; oil exploration, refining, production and sale businesses. In view of the rapid growth of the logistics industry in China, the Group began to expand its logistics and warehousing business in 2015, which has become one of its major businesses. Silk Road Logistics (Qian'an) Company Limited. (formerly known as "Tianjin Property Qian'an Logistics Co., Ltd."), a member of the Group located in Hebei, which constitutes a major part of the Group's logistics and warehousing business, falls into the reporting scope of this report. For ease of reading, it is hereinafter referred to as the "Company". Yet, to enhance report completeness, regarding some environmental, social and governance areas of the Group, this report will include the Group's headquarter operation performance in Hong Kong.

The reporting period of this Environmental, Social and Governance Report (the "Report") was from 1 January 2018 to 31 December 2018. The report was prepared in accordance with the provisions specified in the Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited (the "Stock Exchange"), and published once a year.

BASIS OF PREPARATION

The Company has a dedicated team in charge of environmental and social matters. The Report was compiled to disclose the relevant information according to the requirements of the Environmental, Social and Governance Reporting Guide issued by the Stock Exchange:

1. Materiality: The Report shall make a disclosure when relevant environmental, social and governance matters significantly impact investors and other related parties.

2. Quantitativeness: If key performance indicators (KPI) have been established, these indicators must be quantified and subject to valid comparisons under appropriate conditions. The purposes and effects of all established indicators must be explained.

3. Balance: The Report must give an unbiased description of the Company's environmental, social and governance performance and avoid inappropriately misguiding readers or omitting important information.

4. Consistency: The Report adopts a consistent quantification methodology to allow for meaningful data comparisons being made over time. If there is any subsequent change in methodology, it shall be indicated in the Report.

ABOUT THE COMPANY

The Company is principally engaged in logistics and warehousing and commodity trading business. The Company is committed to carrying out business operations in an environmentally responsible way, and therefore works to reduce environmental pollution, save energy, reduce emissions and place emphasis on recycling in the hope of contributing to environmental protection. At the same time, the Company strictly complies with national and regional environmental protection laws in the hope of substantially reducing pollution in its daily operations.

STAKEHOLDER ENGAGEMENT

The Group strives to comply with legal and regulatory requirements. It has maintained a high level of corporate disclosure and believes stakeholder value can be enhanced and created by clearly communicating the Company's strategy, business development and prospects.

Silk Road Logistics holds shareholders' meetings every year, at which the management can explain the operation status of the Group and also directly listen to feedback from shareholders to facilitate two-way communication between the Board of Directors and investors. To maintain a close relationship with various stakeholders such as customers and warehouse management corporative units, the Group communicates with them from time to time through visits, conference calls, corporate emails and customer service staff, in addition to shareholders' meetings, to listen to their opinions and needs. The overall performance of the Group is published annually in the annual report and presented to investors. Moreover, the website of Silk Road Logistics also contains information about the Group. All news will be published by way of notices on the Group's website, including financial information and reports, changes in and a list of directors as well as other important information such as acquisitions or disposals for browsing. Financial highlights are updated on a regular basis as well to enable shareholders and people from different sectors to deepen their understanding and enhance communication.

The ways of communication of the Group with stakeholders

Major stakeholders	Ways of communication
Investors	Maintain close, transparent and efficient communication with stakeholders through regular investor meetings, annual general meetings, emails, investor relations hotlines, investor mailboxes, announcements and so on.
Customers	Set up a customer service hotline for customers to express their views. If there is a complaint, the staff of the service department will give the customer concerned an appropriate reply as soon as possible.
Employees	Formulate rules and regulations for employment and employee benefits, and raise employees' awareness of occupational safety and health by means of training.
Suppliers	Establish an open and transparent procurement policy by means of emails, meetings and a review and evaluation process to achieve mutual benefits and a win-win result with suppliers.
Community	Assign employees to participate in environmental activities in the community.

ENVIRONMENT

In recent years, the Chinese Government has taken a proactive approach to promoting environmental protection, and placed emphasis on the control and prevention of pollution as well as improvement of environmental quality. In line with the national policy, the Company has implemented environmental protection initiatives in its business operations as outlined below:

Control and Management of Emissions

As the world economy and social development enter a "new normal" pattern, environmental protection is very important to the sustainable development of the Company's business under the general trend towards green development, recycling development and low-carbon development. In view of this, we closely monitor environmental management issues in the operation process and adopt a series of initiatives to reduce environmental impact so as to control the emission of exhaust gases and greenhouse gases as well as the discharge of sewage to water and land, and to reduce the generation of hazardous and non-hazardous waste to fulfill our ongoing commitment to environmental protection.

Waste Reduction Policy

The Company adopts appropriate waste reduction initiatives so as to reduce the potential environmental hazards of waste to air, land and water. These initiatives include the efforts to reduce the generation of waste and a proactive approach to classifying, recovering and recycling resources as well as reducing the quantity of waste so as to fulfill corporate social responsibility.

The Company has been monitoring exhaust gases because of its ongoing concerns about exhaust gas emissions from various equipment. For example, the Company's vehicles has to be inspected within a specified period as required under relevant regulations to make sure tests on tail gases from these vehicles are passed.

Exhaust gas emissions from the Company for the 2018 and 2017 reporting years were as follows. Since the fuels used by vehicles during the two reporting years were similar, exhaust gas emissions generated therefrom were similar too:

	2018	2017
Nitrogen oxides (NOx) (kilogram)	**28.40**	26.46
Sulfur oxides (SOx) (kilogram)	**0.83**	0.87
Particles (PM) (kilogram)	**2.72**	2.54

Reducing Greenhouse Gas Emissions

The Company is monitoring data on greenhouse gas emissions to identify and classify greenhouse gas emission sources, thereby comparing the data presented by various greenhouse gas emission sources.

The following table sets out the total amount and density of greenhouse gas emissions from the Company for the 2018 and 2017 reporting years. The emissions in Scope 2 increased significantly as the Company's warehouse operations increased significantly, resulting in increased electricity consumption.

	2018	2017
Greenhouse gas emissions (carbon dioxide equivalent (tonnes))		
Scope 1	**214.60**	141.61
Scope 2	**1,049.58**	169.19
Scope 3	**0.04**	1.01
Total	**1,264.22**	311.80
Facilities (operating facilities)	**6**	6
Density of greenhouse gas emissions (carbon dioxide equivalent (tonnes)/operating facilities)	**210.7**	51.97

Reducing Business Travel

The Company realizes that long-distance transportation in business travel will increase energy consumption and lead to an increase in carbon emissions. For this reason, the Company will give priority to the use of modern communication modes as much as possible, including the widespread use of Internet video conferencing, so as to cut down the need for long-distance travel, which in turn reduces carbon emissions caused by the use of long-distance transport. If an employee needs to take business travel, priority will mainly be given to public transport to reduce additional carbon emissions. If high-speed rail is available, it will be the most preferred form of transport because high-speed rail, as powered by electric energy, is convenient and effective in substantially reducing exhaust gas emissions from automobile fuel.

Hazardous Waste Disposal Policy

Since logistics and warehousing are the principal business of the Company, no large amount of hazardous waste is generated.

Non-hazardous Waste Disposal Policy

To reduce unnecessary waste generated during operation, the Company works to raise the recovery rate and usage of reusable materials, makes every effort to maximize resource efficiency during operation and explores more methods for resources recycling.

The Company's major non-hazardous waste is household garbage. Different types of solid waste are collected by our employees on a regular basis, which are then sorted and stored, while reusable waste such as paper products and plastic materials are delivered to recycling companies for proper treatment. In particular, the recovery rate is increased to maximize resource efficiency as the above process is controlled by various internal operating policies such as management, publicity, training, identification, classification and recovery policies.

Due to an increase in the number of employees in 2018, non-hazardous waste increased by 74.46% for the 2018 reporting year as compared with the 2017 reporting year.

The following table sets out the total amount and density of non-hazardous waste generated by the Company during the 2018 and 2017 reporting years.

	2018	2017
Total amount of non-hazardous waste generated (tonnes)	**4.92**	2.82
Facilities (operating facilities)	**6**	6
Emission density per output (tonnes/operating facilities)	**0.82**	0.47

Use of Resources

The Company is concerned about environmental protection and upholds the business philosophy of "conservation first; treatment at source". Therefore, it has implemented appropriate initiatives to raise resource efficiency:

Energy Conservation

The Company has adopted various strategies for energy conservation to minimize damage to the ecological environment.

Energy conservation measures

(1) Traditional street lamps were replaced by 100- to 150-watt LED lamps. This move can reduce both electric energy consumption and the harmful waste caused by using traditional lighting devices with a short lifespan.

(2) Power resources were controlled according to the internal policy "Rules Governing Energy Conservation and Consumption Reduction" by requiring employees to join energy conservation and emission reduction actions; and by urging employees to turn off electrical devices (such as lamps, electric fans and air conditioners) in the office when they are not in use. Moreover, the Company disseminated knowledge of energy conservation and emission reduction to encourage employees to develop an energy-saving and environmental-friendly work habit.

(3) A ground source heat pump was installed to use shallow geothermal resources on the surface of the earth as a source of heat and cold for energy conversion to heat the circulating water in the central air-conditioning system. With a small amount of electric power, the ground source heat pump can achieve efficiency several times higher than conventional pumps, reducing energy consumption effectively.

(4) In case of any problems with water, electricity or any leakage, employees must report to their department heads in time so as to arrange for repairs as soon as possible to reduce energy wastage.

(5) Turn off computers, office equipment and air-conditioners after work or leaving the workplace to reduce energy consumption; and buy electric appliances with energy-efficiency labels.

Water Conservation Policy

The Company did not identify any problems with the applicable water sources and did not have difficulty in obtaining water during daily operation. Daily use water was obtained from the urban water supply system and primarily used as domestic water in offices. The Company did not obtain groundwater or obtain water from other natural water sources. The Company often reminds employees to conserve water. For example, automatic flushing systems were installed in washrooms and water-saving labels (such as "Please turn off the tap after washing hands" and "It's our responsibility to save water") were posted in staff's rest rooms, so as to use remaining water for non-hygiene purposes.

Green Offices

The Company plays an active role in promoting green offices. It calls for more use of electronic documents in daily operations by storing files on computers instead of printing files, and by using OA office systems to check approval procedures for contracts and payments, and SAP systems to integrate logistics system business with financial data, so as to create paperless offices and share resources as much as possible, and to reduce the use of printed files. Employees are required to do double-sided printing and reuse single-sided printed paper as a principle of saving paper.

Making Use of Idle Land for Growing Vegetables to Supply Our Own Needs

The Company realizes that resources are gradually decreasing as the world population is growing. Some resources, such as certain fish in food sources, are even in short supply. Hence, the Company optimizes resource utilization, greens the idle land in the warehouse park and grows vegetables for supplying the Company's canteens so as to make vegetable supply meet our own needs as much as possible and to reduce dependence on external vegetable resources. According to relevant regulations, the green space coverage of warehousing enterprises must reach 5% to 20%. The Company's green space coverage is 18.2%, which is close to the upper limit.

Policy for Reducing Waste of Packaging Materials

The Company's principal business is logistics and warehousing, which do not generate a large amount of packaging waste. Only a small amount of paper materials is used to enhance the stability and safety of products when necessary.

The following table sets out the Company's total consumption and density of main resources and packaging materials for finished products during the 2018 and 2017 reporting years. The resource usage in the 2018 reporting year was mostly similar to that during the 2017 reporting year. However, the amount of electricity consumption increased correspondingly with the substantial increase in the Company's operations. Moreover, the increase in water consumption was primarily due to the increased use of water for greening, maintaining and preserving the idle land in the warehouse park, and for growing vegetables.

	2018	2017
Facilities (operating facilities)	**6**	6
Gasoline consumption by mobile sources (liters)	**1,957.7**	2,370
Consumption density (liters/operating facilities)	**326.28**	395
Diesel consumption by mobile sources (liters)	**49,515.1**	51,728
Consumption density (liters/operating facilities)	**8,252.52**	8,621.33
Power consumption by facilities (1,000 kWh)	**1,020.38**	168.9
Consumption density (1,000 kWh/operating facilities)	**170**	28.15
Water consumption (cubic meters)	**24,018**	3,770
Consumption density (cubic meters/operating facilities)	**4,003**	628.33
Total amount of packaging materials for finished products (paper) (tonnes)	**0.28**	0.24
Consumption density (tonnes/operating facilities)	**0.05**	0.04
Total amount of packaging materials for finished products (metal) (tonnes)	***0**	8.03
Consumption density (tonnes/operating facilities)	***0**	1.34

* Since hoisting equipment was installed at warehouses in 2018, the packaging materials for finished products were free of metal.

Environment and Natural Resources

In terms of warehouse management, the Company has five warehouses, four of which are enclosed warehouses and one is an open-air warehouse. The open-air warehouse is used to store goods like steel materials, which have a low impact on the environment, while the enclosed warehouses are used for storing bulk goods. By carrying out continuous monitoring and control, no pollution is generated in the operational process in the entire logistics park where the warehouses are located.

In addition to the green operation in the logistics park's warehouses, the Company also places great emphasis on resource consumption by offices with an aim to minimize the impact of operations on the environment. The management of resource consumption covers three aspects: employee awareness raising, administrative measures and equipment management. The Company posts energy conservation notices to all employees in offices, puts sticky notes with slogans reminding them to conserve energy and requires them to turn off the lighting devices in their workplace before getting off work.

EMPLOYMENT STANDARDS

The Company incorporates local employment regulations for its business operations into an array of employment policies to ensure that employees are treated fairly and reasonably.

Recruitment, Promotion and Equal Opportunities

The Company complies with national laws and policies, treats all job seekers equally, does not set unequal restrictions and unequal priority/preferential policies, and provides equal competition opportunities for job seekers. Recruitment is open and transparent, subject to any supervision and no backroom deals are allowed. According to the "Measures Governing Human Resources" and other relevant regulatory frameworks formulated by the Company, outstanding candidates are recruited by various means based on the principles of fairness, impartiality and openness. The Human Resources Department is the dedicated team for recruiting candidates for the Company, which takes full charge of the development, arrangement and implementation of recruitment plans as well as the assessment of candidates. Recruitment of senior-level candidates is directly led by the general manager and assisted by the Human Resources Department. Upon completion of a recruitment process, the Human Resources Department conducts a review and collects opinions from job seekers and new employees, and evaluates whether there is any room for improving the recruitment process so as to improve the entire process continuously.

Moreover, the Company treats each employee equally and considers matters such as employment, wages, benefits, rewards, promotion and dismissal totally based on the education level, professional qualifications and work capability of the employee. Male and female employees are treated equally. Moreover, the fact that employees are able to grow within the Company benefits both the employees and the Company. The Company has also formulated a promotion policy to encourage employees and build a fair, impartial and open promotion mechanism within the Company. Promotion is based on three key principles: (1) possession of integrity and competence which are of equal importance; (2) equal opportunity; and (3) the combination of career ladder promotion and "exceptional promotion".

The Company has various promotion schemes. Promotion is generally based on seniority, but besides this, work performance and level of commitment are also important criteria for evaluating promotion. The work performance of an employee is generally evaluated by his/her superior. In addition to the quarterly evaluation of the individual performance of an employee, in order to strengthen solidarity within departments and boost initiative among employees, the Company also has quarterly evaluation of departmental performance, in which departments evaluate one another's performance with clear and transparent scoring methods. The best performing department in these quarterly evaluations will receive a red "Quarterly Outstanding Department" banner as an incentive. If a department is rated as the best performing department of the year, the Company will offer certain material rewards and, if thought fit, incentive bonuses.

Work-life Balance

Employees are the most important core assets of the Company. The Company carries out operations by heart, cares about the needs of its employees and places emphasis on a balance between the work and life of employees. A relaxed life of employees can help improve the overall operational efficiency of the Company. In view of this, the Company finds it necessary to comply with the "Labour Contract Law of the People's Republic of China" to safeguard the number of working hours and rest days of employees.

Compensation and Retirement Arrangements

The Company initiates compensation and retirement procedures (including the payment of compensation and planned retirement arrangements) in accordance with the "Labour Law of the People's Republic of China", the "Labour Contract Law of the People's Republic of China" and other relevant laws and regulations.

Anti-discrimination

The Company prohibits any acts of discrimination because of ethnic group, skin colour, nationality, language, wealth, social origin, social status, age, gender, sexual orientation, race, disability, pregnancy status, belief, political faction, membership of an association or marital status in all aspects covering employee recruitment, promotion, development, penalty, benefits and termination of labour contracts in an attempt to achieve workforce diversity.

Employee Benefits

The Company's basic employee benefits comprise social insurance and year-end bonuses. Moreover, the Company not only provides subsidies for work-related training programmes but also sets up a staff scholarship scheme in order to encourage employees to continually boost their value and to build a quality team. Employees who have completed a college degree or above are eligible for a one-off scholarship as an incentive provided by the Company for them to pursue learning in their spare time.

Moreover, it is our belief that having an outstanding team is a way to ensure the long-term development of the Company, while "being people-oriented, having good intentions towards others, keeping abreast of the times as well as mutual growth and prosperity" is our business philosophy. This is why we view employees as an important asset and in light of this, the Company attracts employees by providing remuneration that is no lower than or even higher than market levels. In selecting new candidates and cultivating competent employees, we place emphasis on their mentality and stick to the selection and cultivation standards. Employees must work diligently, be dedicated to their work, be honest and upright, have a sense of responsibility, be able to understand and respect each other, emphasize teamwork, and stay motivated.

To create a pleasant work environment for employees, the Company provides annual leave, marriage leave, maternity leave and paternity leave in strict compliance with national laws and regulations concerning human resources. More benefits are also introduced by offering additional allowances for heating facilities in winter and for sunstroke prevention and high temperature in summer to boost staff's morale.

The Company has developed a detailed remuneration policy covering not only monthly salaries but also year-end bonuses and quarterly labour insurance schemes. Wages are structured based on the Group's results and employees' performance during a year.

The following table sets out the total number and distribution of the Company's employees during the 2018 and 2017 reporting years. Compared with 2017, four additional employees were recruited in 2018 in line with the business needs of the Company:

	2018	2017
Gender		
Male	**12**	10
Female	**13**	11
Type of employment		
Full-time	**25**	21
Region		
China	**25**	21
Employees' ages		
18 – 24	**4**	0
25 – 34	**9**	11
35 – 44	**3**	6
45 – 54	**4**	4
55 – 64	**5**	0
> 65	**0**	0
Total	**25**	21

The following table sets out the employee turnover drawing a comparison between the types of employees and the total number of employees of the relevant type during the 2018 and 2017 reporting years. It can be seen from the table that there was no significant difference in employee turnover between the two reporting years.

	2018 Percentage (%)	2017 Percentage (%)
Gender		
Male	**8.3**	0
Female	**23**	27.2
Employees' ages		
18 – 24	**0**	0
25 – 34	**0**	0
35 – 44	**33.3**	0
45 – 54	**75**	75
55 – 64	**0**	0
> 65	**0**	0
Region		
China	**16**	14.3

OCCUPATIONAL HEALTH AND SAFETY

Ensuring the occupational health and safety of employees should be the top priority for every business, and provision of relevant personal protective tools is the most basic requirement. The Company provides raincoats, rain boots, safety helmets, insulating shoes, gloves, face masks, and so on. Workplace safety, safety of operating procedures and employee education on dealing with some possible, unexpected accidents are a focus of attention. The Company also formulates a relevant health and safety policy for people who may enter or exit workplaces because of the characteristics of the logistics industry that access to the workplace is not only limited to employees of the Company.

Workplace Safety

Besides employees, outsiders are also required to comply with the Worksite Admission Notice which imposes control over individuals entering and exiting worksites, while vehicles entering and exiting worksites are also subject to the following restrictions:

(i) restriction on access to certain areas;

(ii) speed limit on vehicles;

(iii) requirement for the size of vehicles. For example, vehicles which are too long, too wide, too high and too heavy are not permitted to enter.

Owing to the nature of the business, loading and unloading operation is one of the main routine work procedures. The Company formulates a Loading and Unloading Management Policy so that employees understand safe execution of this important work procedure depends on the strict compliance of and cooperation from all employees.

Moreover, the safety and maintenance of lifting equipment also plays an important part. Hence, the Company formulates the Policy for the Operation of Lifting Equipment; the Rules for the Operation, Maintenance Management and Safe Operation of Forklifts, and the Policy for the Management of Safety of Gantry Cranes to ensure work safety in daily operations.

The inspection of hoisting machinery at regular intervals is an important factor in ensuring that these machines can operate safely. Therefore, the Company arranges for testing institutions to inspect relevant machinery and equipment once every two years and with regular inspection and maintenance undertaken. Each inspection must be carried out according to the relevant operating manuals or documentation before use of equipment. If the equipment has not been used for a period of time, it can be used only after the safety of such equipment is confirmed. Personnel involved in the installation or maintenance of hoisting machinery must have relevant operating certificates before carrying out such work.

Forklifts are used regularly in the routine operations of the Company. As a result, the Rules for the Operation, Maintenance Management and Safe Operation of Forklifts was developed. Forklifts must be operated by specialist drivers, and items for everyday inspection and maintenance are all clearly specified in the official documents to ensure employees clearly understand the requirements. In addition, running routes and speed limits are also stipulated to avoid accidents as far as possible.

Gantry cranes are widely used by the Company. Since their operation is relatively complex, it is necessary for employees to receive specialist training, to do practices and receive technical and operational safety assessment before operating these cranes. Before operating these cranes, employees must complete the work process involving "Five Handover and Three Inspection Items" and strictly comply with the principle of "Not to Lift under Ten Situations".

Safety and Emergency Response Plan

It is usually difficult to predict when accidents will occur. However, the Company hopes to educate its employees about the knowledge of safety and emergency response so that losses can be kept to a minimum when accidents occur.

Fire Drills

In addition to arranging fire drills for employees, the Company also invites other collaborative partners such as contractors to participate in these drills. The entire process is led by safety supervisors who explain and demonstrate the use of fire extinguishers and fire hoses. They also explain the reporting process when a fire accident occurs unfortunately.

Emergency Response Plan for Lifting Equipment

In order to prevent items falling from high altitude as well as the loss of control, toppling over and boom break of cranes during the use of lifting equipment, the Company formulates the Emergency Response Plan for Lifting Equipment, which upholds the guiding principles that "safety comes first, precaution is top priority" and that "priority is given to the protection of employee safety and the protection of the environment." The Company has formed a leading group for emergency response, which must immediately go to the scene of an accident, should an accident occur. Moreover, the preparation of first aid supplies, relevant training exercises, communication channels and division of work amongst staff are also important items of the emergency response plan.

Rectification Plan for Key Safety Aspects

In order to carry out complete rectification, as well as to detect and prevent safety hazards as early as possible, the Company forms a dedicated safety team with members comprising the Company's employees and contractors to identify safety hazards in the Company in stages, and work out corresponding measures for improvement. This plan is aimed at rectifying the following four critical areas of safety:

(i) inspection of the safety of firefighting facilities;

(ii) inspection of the safety of the use of electricity;

(iii) inspection of the safety of special equipment;

(iv) inspection of transport safety.

The following table illustrates the rate of fatalities and number of working days lost due to employees' work injury in the 2018 and 2017 reporting years. Both two key performance indicators are zero, signifying the results arising from the Company's active promotion of occupational health and safety. The Company will continue to work hard and progress consistently, maintaining such excellent performance.

	2018	2017
Rate of fatalities due to employees' work injury	**0**	0
Number of working days lost due to employees' work injury	**0**	0

DEVELOPMENT AND TRAINING

Our Hong Kong operation constantly works to provide an environment which enables employees at the headquarters to achieve professional growth, benefits their career development and meets the long-term business needs of the Group. To this end, we constantly encourage employees to participate in continuing education and provide them with study allowances, and formulate Training Fee Guidelines to encourage them to actively attend training courses offered by professional institutions, to improve their professional skills and knowledge. We also host training courses and provide reading material for Directors to help them perform their duties, allowing them as much access as possible to the latest and most comprehensive information concerning relevant regulatory rules and corporate governance.

The following table illustrates the percentage of employees receiving training in the relevant categories within the Company in the 2018 and 2017 reporting years. As the table shows, we strengthened the training of female employees and thus had an increase of 7.7% as compared with 2017. In terms of the middle management, the Company's middle-level management attended in 2017 the special equipment safety training for management personnel, a training scheme held once every four years. Therefore, there was no middle-level management attending such a training in 2018.

	2018	2017
Gender		
Male	**41.7**	60
Female	**7.7**	0
Rank of employees		
Senior management	**0**	0
Middle management	**0**	100
Supervisor	**0**	0
General staff	**25**	25

The following table illustrates the average training hours of every employee in the relevant categories within the Company during this reporting year and the last reporting year. The average training hours of both male and female employees increased. The Company strives to foster excellent talents and encourages employees to receive sustainable training to grow with the Company together.

	2018	2017
Gender		
Male	**11.6**	0.6
Female	**0.7**	0

SUPPLY CHAIN MANAGEMENT

The quality of services is closely related to the performance of contractors. In order to strengthen the management of contractors' personnel entering and leaving factory buildings, the Company establishes the Policy for the Management of Contractors' Personnel to ensure that contractors understand and conform to the Company's environmental and safety requirements before they begin work. In addition, the Company conducts a safety assessment of contractors on a trial basis, whereby contractors are engaged only if the assessment results meet the set criteria. After they are engaged, we also hope to adopt an evaluation method on a trial basis under which those contractors with excellent scores will be given priority in undertaking projects in future, while those with unsatisfactory evaluation scores will not be considered. For added transparency, the evaluation content is detailed in the Policy for Work Safety of Outsourced Projects. Moreover, regular meetings are convened with contractors so as to communicate relevant critical areas of environmental protection and safety.

The following table illustrates suppliers' number and geographical locations of the Company in the 2018 and 2017 reporting years. The Company maintained good partnerships with each supplier and thus the number of suppliers did not change.

	2018	2017
China	**11**	11

SERVICE QUALITY

The Company strives to provide logistics and warehousing services that deliver goods to customers in a precise, punctual and safe manner. In accordance with the Advertisement Law, the Company requires that when salespersons are promoting products, the information they provide must come from the product advantages confirmed by the Company and must not involve negative statements related to competitors or their products to prevent customers from being misled at the time of purchase.

We improve our service quality continuously and respond to customer inquiries immediately. We set up a customer service channel whereby if there is a complaint, our salesman is required to give the customer an appropriate reply within a specified time. Meanwhile, the Company further enters into a confidentiality agreement with its employees to prevent leakage of customer information and strictly manages information and documents related to customers' intellectual property.

The following table illustrates the percentage of products need to be recycled due to safety and health reasons and the number of complaints related to products and service in the 2018 and 2017 reporting years. During the two reporting years, there was neither individual products-recycling case nor individual complaint case, which encourages the Company to adhere to the philosophy of "providing excellent service" closely and meet customers' demands.

	2018	2017
Percentage of products need to be recycled due to safety and health reasons	**0**	0
Number of complaints related to products and service	**0**	0

In terms of intellectual property, the Company will ensure that the operation process complies with the Intellectual Property Law of the People's Republic of China and monitor relevant operations regularly.

ANTI-CORRUPTION

Anti-corruption and anti-bribery are essential elements in creating a fair business environment. To this end, the Company formulates a policy for the management of anti-bribery in commercial activity specifically for the following employees:

(i) the management: the Company's management must be conversant with relevant national policies for anti-bribery and integrity in commercial activity in order to lead the Company's operating activities, strengthen supervision, and make improvements if loopholes are found;

(ii) the procurement and sales staff: in light of the nature of their work, the Company has been undertaking anti-corruption education and case discussion of a more thorough nature for its procurement and sales staff in order to strengthen their anti-corruption awareness. In the procurement and sales processes, discounts must be clearly listed on the invoices, if circumstances allow;

(iii) the staff of the Accounts Department: they must develop a sense of integrity and know the seriousness of falsifying accounts; the Company's annual financial audit is one of the ways to monitor the relevant performance of the staff of the Accounts Department.

Whistle-blowing plays a key role in the entire anti-corruption work. Therefore, it is necessary to set up a whistle-blowing hotline and a whistle-blowing mailbox. A relevant management system is in place to maintain confidentiality of the whistle-blowers' identity, details of what they report and of investigation, and to collaborate with relevant departments in investigation. The Company believes that the General Manager must set an example in assuming responsibility for anti-bribery. The Anti-Bribery Accountability System for Commercial Activity specifies that in the event of a bribery case, the General Manager must be held liable for it, signifying the importance of the management taking responsibility.

COMMUNITY PARTICIPATION

Contributing to society and working jointly to build a better environment is one of the elements of corporate responsibility. Silk Road Logistics boosts community participation in three aspects including community care, industry and safety. In 2018, the Company further made donations to the St. James' Settlement People's Food Bank to provide emergency food aid to poor people. Furthermore, in order to improve poor children's life, Silk Road Logistics made donations to Po Leung Kuk to support its children sponsorship scheme. Silk Road Logistics will continue to encourage its employees to support various public causes, making contributions to the development of the community. In addition, the Company attended safety production training meeting, dual-control of safety production meeting, province-level teleconference of safety production and the examination on Hebei Province Safety Production Risk Control and Hidden Dangers Management Measures hosted by the relevant departments of national safety production, building a city of quality engagement conference of Qian'an City, rights list engagement conference of Qian'an City and limited space safety production meeting held by the government, and environmental protection and safety production meeting and the second national pollution census training session convened at the logistics park. The Company will continue to support these types of government and park activities and proactively encourage employees to participate, strengthening the cooperation and communication with different institutions. Moreover, employees can also get access to the most updated occupational health and safety knowledge in the market, raising the team's awareness of occupational health and safety.

OUTLOOK

In the future, the Company will strive for victory while seeking stability by taking a proactive approach to developing different kinds of business with potential within an intensely competitive marketplace. This report covers only Silk Road Logistics' Qian'an logistics business which is the main business of the Group. We hope that the reporting scope will be extended to cover more of the Group's other business lines so as to provide information for comparison and to make the report more informative in the near future.

COMMENTS ON THE REPORT

Any comments regarding the report or the environmental, social and governance aspects of the Company can be made by the following means. The Group values your opinions:

Address:	Unit B, 12th Floor Lippo Leighton Tower 103 Leighton Road Causeway Bay Hong Kong
Telephone:	852 2895 6733
Fax:	852 2895 6876
E-mail:	enquiry@srlhl.com

Report of the Directors

The directors of Silk Road Logistics Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018.

CHANGE OF COMPANY NAME

The name of the Company changed from "Loudong General Nice Resources (China) Holdings Limited 樓東俊安資源(中國)控股有限公司" to "Silk Road Logistics Holdings Limited 絲路物流控股有限公司" from 4 January 2018. The stock short name of the Company for trading in the shares on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") changed from "LOUDONG GN RES 樓東俊安資源" to "SILKROAD LOG 絲路物流控股" on 28 February 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 48 to the consolidated financial statements.

An analysis of the Group's performance for the year by operating segment is set out in note 6 to the consolidated financial statements.

BUSINESS REVIEW

A review of the Group's business during the year and an indication of likely developments in the Group's business, as required by Schedule 5 to the Companies Ordinance, is provided in the section "Management Discussion and Analysis" on pages 5 to 8 and the "Chairman's Statement" sections of this report. The above sections form part of this Directors' Report.

PRINCIPAL RISKS AND UNCERTAINTIES

There are certain risks and uncertainties that the Group faces during its operation. Such risks and uncertainties include factors such as economy conditions of both inside and outside China and United States, PRC's foreign exchange policies, changes relating to laws and regulations and enforcement policies, and the price and supply of raw materials. While these risks continue to exist, the Group will closely monitor any signs of these occurrence and all departments of the Group will be involved in identifying and evaluating risks relating to their operational scope. Subsequently, appropriate plans will be devised to minimize the impacts derived from risks and uncertainties confronting the operation of the Group.

ENVIRONMENTAL POLICY AND PERFORMANCE AND THE COMPLIANCE OF LAWS AND REGULATIONS

The Group is committed to maintain an environmental friendly strategy by ways of minimizing pollution and wastage dispose to the environment, energy saving, low carbon emission, and emphasizing on recycling. The offices were aimed in minimizing the use of papers and consumables, and concentrated in the use of electronic media. The Company's major subsidiary located in Hebei is carrying on business of logistics and warehouse. This subsidiary adopted the Company's above environmental policies and in addition, it optimizes resources utilization, greens the idle land on warehouse park. In terms of warehouse management, the open-air warehouse is used to store goods which have a low impact on the environment while the enclosed warehouses are used to store goods which may have more impact on the environment. Through the warehouse management policy and continuing and closely monitor the warehouses operations, pollution generated in the operation process from these warehouses is low. Besides, sufficient provision was made for the assets retirements in the oil companies to ensure a minimal damage to the environment. The Group is consistently reviewed the compliance on environmental policies in each location to ensure the compliance of relevant laws, rules and regulations, and consistently enhance our standard to increase our contribution to the environment.

During the year, as far as the Company is aware, there was no material breach or non-compliance with applicable laws and regulations by the Group that have significant impact on the business and operations of the Group.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the Group's financial position at that date are set out in the consolidated financial statements on pages 60 to 159.

The board of directors of the Company (the "Board") does not recommend payment of a final dividend for the year ended 31 December 2018 (2017: Nil).

DIVIDEND POLICY

The Company has adopted a dividend policy ("Dividend Policy"), pursuant to which the Company may declare and distribute dividends to the shareholders of the Company, provided that the Group records a profit after tax and that the declaration and distribution of dividends does not affect the normal operations of the Group. The declaration and amount of the dividends shall be determined at the sole discretion of the Board. In deciding whether to propose or pay dividend and the dividend amount, the Board shall take into account, inter alia, the Group's financial performance, the operations, earnings, the liquidity position of the Group, the Group's working capital requirements and future development requirements, general business conditions and strategies, the Bye-laws of the Company, legal statutory and regulatory restrictions, contractual restrictions and any other factors that the Board deem appropriate and relevant at such time. The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific periods.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on pages 161 to 162, which does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment property of the Group during the year are set out in notes 16 and 17 to the consolidated financial statements, respectively on pages 112 to 115.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group are set out in note 30 to the consolidated financial statements on page 129.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and the convertible bonds during the year are set out in notes 36 and 31 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, REDEMPTION OR SALE 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 ended 31 December 2018.

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company's reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended), amounted approximately to HK$332,218,000 (2017: HK$737,786,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 78.75% (2017: 34.06%) of the total sales for the year and sales to the largest customer included therein amounted for 40.87% (2017: 11.26%). Purchases from the Group's five largest suppliers accounted for 81.93% (2017: 66.04%) of the total purchases for the year and purchases from the largest supplier included therein amounted for 40.72% (2017: 35.47%).

To the best knowledge of the directors of the Company (the "Directors"), none of the Directors or any of their associates or any shareholders holding more than 5% of the Company's issued share capital, had any beneficial interest in the Group's five largest customers or five largest suppliers.

DIRECTORS

The Directors who were in office during the year and those as at the date of this report are as follows:

Executive Directors:
Mr. Cai Jianjun (re-designated as executive Director on 25 January 2019)
Mr. Zhao Cheng Shu
Mr. Wang Xiusong (appointed on 1 November 2018)
Ms. Zhang Rui (appointed on 25 January 2019)
Mr. Ding Zhiyi (resigned on 25 January 2019)
Mr. Ng Tze For (resigned with effect from 1 November 2018)
Mr. He Fengnian (resigned with effect from 1 November 2018)

Non-executive Director:
Mr. Zhou Hao (appointed on 28 February 2019)

Independent Non-executive Directors:
Ms. Choy So Yuk
Mr. Leung Yuen Wing
Mr. Wu Zhao
Mr. Zhu Dengkai
Mr. Liu Wei
Mr. Zou Mingwu (appointed on 25 January 2019)

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Wang Xiusong, Ms. Zhang Rui, Mr. Zhou Hao and Mr. Zou Mingwu shall retire from office at the forthcoming annual general meeting and being eligible, each of Mr. Wang Xiusong, Ms. Zhang Rui, will offer himself/herself for re-election as executive Directors, Mr. Zhou Hao will offer himself for re-election as non-executive Director and Mr. Zou Mingwu will offer himself for re-election as independent non-executive Director.

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Zhao Cheng Shu, Ms. Choy So Yuk ("Ms. Choy") and Mr. Leung Yuen Wing shall retire from office by rotation at the forthcoming annual general meeting and being eligible, Mr. Zhao Cheng Shu will offer himself for re-election as executive Director and each of Ms. Choy So Yuk and Mr. Leung Yuen Wing will offer herself/himself for re-election as independent non-executive Director.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received an annual confirmation of independence from each of its independent non-executive Directors pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). Each of the independent non-executive Directors (except Ms. Choy) has served the Company for not more than 9 years. The Company considers these independent non-executive Directors to be independent.

Ms. Choy has served as an independent non-executive Director for more than nine years. In addition to her confirmation of independence pursuant to Rule 3.13 of the Listing Rules, Ms. Choy continues to demonstrate the attributes of an independent non-executive director and there is no evidence that her tenure has had any impact on her independence. Ms. Choy is not involved in the daily management of the Group nor in any relationships or circumstances which would interfere with the exercise of her independent judgment. In view of Ms. Choy holds a wide variety of political, social and academic positions, which the Board believes that she is capable to provide constructive contributions as well as wide spectrum of independent opinion to the Company. Hence, the Board is of the opinion that Ms. Choy has the required charter, integrity, experience and knowledge to continue fulfilling the role of an independent non-executive Director effectively and is of the opinion that Ms. Choy remains independent and believes that her experience continues to generate significant contribution to the Company and the Shareholders as a whole.

MANAGEMENT CONTRACTS

The Group has appointed Tewoo Import and Export Trade Co., Limited ("Tewoo") to manage the operation of Siik Road Logistics (Qian'an) Company Limited. 絲路物流(遷安)有限公司 (formerly Tianjin Property Qian'an Logistics Company Limited 天津物產遷安物流有限公司 "Qian'an"), a 70%-owned subsidiary of the Company for a term commencing from the date of completion of the acquisition of Qian'an by the Group to 31 December 2019. None of the Directors have interests, whether directly or indirectly, in the aforesaid management contract.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 9 to 13.

DIRECTORS' SERVICE CONTRACTS

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

DIRECTORS' REMUNERATION

The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are recommended by the remuneration committee of the Company and determined by the Board with reference to Directors' duties, qualification, responsibilities and performance of the Directors, the results of the Group and the market practice.

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and senior management of the Company is currently in force and was in force throughout the year. The Group has appropriately purchased directors and officers liability insurance for years to minimize the risks of Directors and senior management for the performance of their corporate duties.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

No Director nor a connected entity of a Director had a material interest, either directly or indirectly, in any transactions, arrangements or contracts of significance to the business of the Group to which the holding company of the Company or any of the Company's subsidiaries or fellow subsidiaries was a party during the year.

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

The Group have entered into the following continuing connected transaction and disclosed in the announcements of the Company:

(1) Supply Agreement and Purchase Agreement

(a) On 31 August 2016, Qian'an, a 70% owned subsidiary of the Company, entered into a supply agreement (the "Supply Agreement") with Hebei Baoli Huifeng Shiye Group Company Limited 河北寶利滙豐實業集團有限公司 ("Baoli"), the shareholder holding 30% interest of Qian'an and an associate of Mr. Zhao Wen Bao, who is a substantial shareholder of Baoli and a director of each of Baoli and Qian'an, for a term of three years commencing from 31 August 2016 and ending on the day preceding the third anniversary of the Supply Agreement. Pursuant to the Supply Agreement, Baoli and its subsidiaries or associates may from time to time during the term of the Supply Agreement purchase coal, coke and iron ores from Qian'an and its subsidiaries or associates by placing purchase orders in accordance with the terms and conditions of the Supply Agreement. The price shall be determined through arm's length negotiations between the supplier and the purchaser by reference to the prevailing market price of the goods, and no less favorable than that provided to independent third parties.

Baoli is a connected person of the Company at the subsidiary level, the transactions contemplated under the Supply Agreement constituted continuing connected transaction for the Company under the Listing Rules.

The expected maximum aggregate annual value for the transactions contemplated under the Supply Agreement ("CCTI") for the year ended 31 December 2017 and 2018 is RMB365,000,000 and RMB418,000,000 respectively and for the year ending 31 December 2019 is RMB366,000,000. However, no transactions contemplated under the Supply Agreement were carried out during the year.

Further details of the Supply Agreement have been disclosed in the Company's announcement dated 31 August 2016 ("CCTI Announcement").

(b) On 26 October 2017, Qian'an entered into a purchase agreement (the "Purchase Agreement") with Baoli for a term commencing from the date of the purchase agreement and ending on 30 August 2019 pursuant to which the Group may from time to time during the term of the Purchase Agreement purchase coal, coke and iron ores from Baoli and its subsidiaries by placing purchase orders and the price shall be determined through arm's length negotiation between the purchaser and supplier by reference to the prevailing market prices, and no less favourable than that provided to independent third parties.

Baoli is a connected person of the Company at the subsidiary level, the transactions contemplated under the Purchase Agreement constituted continuing connected transaction for the Company under the Listing Rules.

The expected maximum aggregate annual value for the transactions contemplated under the Purchase Agreement ("CCTII") for the year ended 31 December 2017 and 2018 is RMB265,000,000, and RMB649,000,000 respectively and for the year ending 31 December 2019 is RMB545,000,000. However, no transactions contemplated under the Purchase Agreement were carried out during the year.

Further details of the Purchase Agreement have been disclosed in the Company's announcement dated 26 October 2017 ("CCTII Announcement").

The CCTI and CCTII have been reviewed by the Company's independent non-executive Directors who have confirmed that the transactions have been entered into:

a) in the ordinary and usual course of business of the Group;

b) on normal commercial terms; and

c) in accordance with the relevant agreements governing the transactions on terms that are fair and reasonable and in the interests of the Company and its shareholders as a whole.

The auditors of the Company have provided confirmations in accordance with the relevant provisions of the Listing Rules applicable to the CCTI and CCTII for the year ended 31 December 2018 and confirming that nothing has come to their attention that causes them to believe that the CCTI and CCTII for the year ended 31 December 2018:

a) have not been approved by the Board;

b) where the transactions involve the provision of goods or services by the Group were not, in all material respects, in accordance with the pricing policies of the Company;

c) were not entered into, in all material respects, in accordance with the relevant agreements governing the transactions; and

d) have exceeded the annual cap as set by the Group.

RELATED PARTY TRANSACTION

A summary of the related party transactions entered into by the Group during the year ended 31 December 2018 is contained in note 43 to the consolidated financial statements. Save and except the connected transactions/containing connected transactions disclosed above, the related party transactions did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2018, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange:

	Long and short position in the shares and underlying shares of the Company			
Name of Director	Number of ordinary shares	Nature of Interests	Total	Approximate percentage of the issued share capital
Mr. Cai Jianjun	10,000,000(L)	Family interests	10,000,000(L)	0.18%
Mr. Zhao Cheng Shu	5,438,150(L)	Personal interests	5,438,150(L)	0.10%
Ms. Choy So Yuk	271,908(L)	Personal interests	271,908(L)	0.01%
Mr. Leung Yuen Wing	224,213(L)	Personal interests	224,213(L)	0.01%

L – Long position

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the sections headed "Interests of Directors and chief executive" and "Share option scheme" in this report, at no time during the year was the Company or any of its subsidiaries a party to any arrangement to enable a director of the Company to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group believes that employees are valuable assets and the key element to sustain its growth and development. Thus the Group maintain a competitive remuneration package, discretionary bonus, training and occupational health and safety to retain the employees. The Group will consistently review the remuneration packages so as to competitive with the market. Further, the Group has adopted a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group. Customers and suppliers are another important elements for the Group to success. Thus the Group would value good relationship with the customers and suppliers by ways of providing high quality services and products to the customers, as well as maintaining a mutual trust and commitment with the suppliers.

SHARE OPTION SCHEME

The Company adopted a share option scheme on 30 June 2017 (the "Scheme") for the purpose of providing incentives to Participants (as defined in the Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole.

Details of the Scheme are set out in note 37 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

Save as disclosed under the section headed "Interests of Directors and chief executive" above, as at 31 December 2018, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

		Long and short positions in the shares/ underlying shares of the Company		
Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
China Huarong International Holdings Limited ("China Huarong")	Interest of controlled corporation	Corporate interests	1,703,728,222(L) (Note 1)	29.87%
Xinya Global Limited 新亞環球有限公司	Beneficial owner	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tewoo Import & Export (HK) Limited	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tianjin Tian Yuen Investment Limited* 天津天源投資有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tewoo Import and Export Trade Co., Limited* 天津物產進出口貿易有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tewoo Group (Hong Kong) Limited	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tewoo Group Co., Ltd.* 天津物產集團有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tianjin Guo Xiang Asset Management Limited* 天津國翔資產管理有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%

Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
		Long and short positions in the shares/ underlying shares of the Company		
Tianjin Guo Xing Asset Operation Limited* 天津國興資本運營有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tianjin Yi Qing Asset Management Limited 天津一輕資產經營管理有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%
Tianjin Yi Qing Group Holdings Limited 天津市一輕集團(控股)有限公司	Interest of controlled corporation	Corporate interests	388,244,120(L) (Note 2)	6.81%

L – Long position

Notes:

1. China Huarong Investment Management Limited is interested in 1,703,728,222 shares. China Huarong owns 100% of China Huarong Investment Management Limited and is deemed to be interested in the shares held by China Huarong Investment Management Limited, China Huarong is owned as to 88.1% by Huarong Real Estate Co., Ltd. and as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. Each of Huarong Real Estate Co., Ltd. and Huarong Zhiyuan Investment & Management Co., Ltd. is wholly-owned by China Huarong Asset Management Co., Ltd. which is owned as to 63.36% by Ministry of Finance of the People's Republic of China.

2. These interests is beneficially owned by Xinya Global Limited. Xinya Global Limited is wholly owned by Tewoo Import & Export (HK) Limited. Tweoo Import & Export (HK) Limited is owned as to 49% by Tewoo Import And Export Trade Co., Limited and 51% by Tewoo Group (Hong Kong) Limited. Tewoo Import And Export Trade Co., Limited is owned as to 17.47% by Tianjin Tian Yuen Investment Limited and 53.43% by Tewoo Group Co., Limited. Tianjin Tian Yuen Investment Limited is wholly owned by Tiajin Guo Xiang Asset Management Limited. Each of Tianjin Yi Qing Asset Management Limited and Tianjin Guo Xing Asset Operation Limited owns 50% of Tianjin Guo Xiang Asset Management Limited. Tianjin Yi Qing Asset Management Limited is wholly owned by Tianjin Yi Qing Group (Holdings) Limited. Tewoo Group (Hong Kong) Limited is wholly owned by Tewoo Group Co., Limited.

Save as disclosed above, the Directors are not aware of any other persons who, at 31 December 2018, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the date of this report, the Company has maintained the prescribed public float under the Listing Rules from the date of the last annual report of the Company to the date of this annual report.

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

During the year, none of the Director is considered to have interests in a business which competes or is likely to compete, either directly or indirectly, with the businesses of the Group pursuant to the Listing Rules:

CORPORATE GOVERNANCE

Details of the Company's corporate governance practices are set out in the Corporate Governance Report on pages 14 to 25 of this annual report.

EVENTS AFTER THE REPORTING PERIOD

Details of significant events of the Group after the reporting period and set out in note 49 to the consolidated financial statements.

AUDITORS

On 29 December 2016, the Board appointed CCTH CPA Limited as auditors of the Company to fill the casual vacancy caused by the resignation of Ascenda Cachet CPA Limited, until the conclusion of the 2017 annual general meeting. CCTH CPA Limited was re-appointed as auditors of the Company at the 2017 and the 2018 annual general meeting. Save for the above, there were no other changes in the Company's auditors in the past three years.

A resolution for the reappointment of CCTH CPA Limited as auditors of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD
CAI Jianjun
Chairman

Hong Kong
28 March 2019

CCTH CPA LIMITED
中正天恆會計師有限公司

To the shareholders of Silk Road Logistics Holdings Limited
(Formerly known as Loudong General Nice Resources (China) Holdings Limited)
(Incorporated in the Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of Silk Road Logistics Holdings Limited and its subsidiaries (the "Group") set out on pages 60 to 159, which comprise the consolidated statement of financial position as at 31 December 2018, the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS OF OPINION

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

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

We draw attention to Note 2 to the consolidated financial statements regarding the adoption of going concern basis on which the consolidated financial statements have been prepared. As at 31 December 2018, the Group's current liabilities exceed its current assets by HK$455,687,000. As at 31 December 2018, the Group had bank and other borrowings with principal amounts of HK$414,412,000 to be matured within one year after that date which are included in current liabilities.

The conditions set out in Note 2 to the consolidated financial statements indicate the existence of a material uncertainty which may cast significant doubt on the ability of the Group and the Company to continue as a going concern. The consolidated financial statements do not include any adjustments that would result from a failure to obtain the funding as referred to in Note 2 for financing the working capital and financial commitments of the Group and the Company for the foreseeable future. Our opinion is not modified in respect of this matter.

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.

Recoverability of trade and bills receivables

Refer to note 24 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
At 31 December 2018, the Group had gross trade and bills receivables amounted to approximately HK$714,180,000, of which impairment provision of HK$101,590,000 has been made. Recoverability of the trade and bills receivables involved management judgment in assessing the allowance for doubtful debts for receivables. The ability of the debtors to repay to the Group depends on customer specific and market conditions which involve inherent uncertainty. We have identified impairment assessment of trade and bills receivables as a key audit matter due to the magnitude of the receivables and the estimation and judgment involved in the determination of the recoverable amounts of these receivables.	Our procedures in relation to the recoverability of trade and bills receivables included: – We obtained an understanding of the design, implementation and operating effectiveness of management's internal controls relating to credit control, debt collection and making provisions for doubtful debts. – We assessed the classification and accuracy of individual balances in trade and bills receivables ageing report by testing the underlying invoices on a sample basis. – We assessed subsequent settlement of receivable balances. Where settlement had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgment about the recoverability of the outstanding receivables and assessed the allowance for doubtful debts made by management for these individual balances. – We assessed the historical accuracy of the estimates made by the management for the allowance for doubtful debts. – We assessed the appropriateness of the expected credit loss positioning methodology, by examining the key data inputs on a sample bases, to assess their accuracy and completeness, and challenging the assumptions, including both historical and forward-looking information, used to determine the expected credit loss.

KEY AUDIT MATTERS (continued)

Recoverability of prepayments, deposits and other receivables

Refer to note 25 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the carrying amounts of the Group's deposits for purchase of goods and other receivables, which are included in prepayments, deposits and other receivables, are HK$821,799,000 and HK$33,137,000 respectively. Impairment loss amounted to approximately HK$93,742,000 and HK$20,268,000 have been recognised for the current year on the deposits for purchase of goods and other receivables respectively. Recoverability of deposits paid for purchase of goods and other receivables involved management judgment in assessing the impairment losses of such deposits and receivables. Completion of the purchase of goods and the ability of the debtors to repay the Group depend on customer-specific and market conditions which involve inherent uncertainty. We have identified impairment assessment of deposits for purchase of goods and other receivables as a key audit matter due to the magnitude of the deposits and receivables and the estimation and judgments involved in the determination of their recoverable amounts.	Our procedures in relation to management's impairment assessment on prepayments, deposits and other receivables included: – We obtained an understanding of the Group's processes and controls relating to monitoring of recoverability of the deposits paid for purchase of goods and other receivables and identifying any impairment indicators. – We assessed the classification and accuracy of individual deposits and receivables by testing relevant corroborative evidence on a sample basis. – We assessed subsequent purchase of goods and settlement of receivable balances. Where purchase of goods had not made and/or settlement of receivables had not been received subsequent to the year end date, we obtained an understanding of the basis of management's judgments about the recoverability of the deposits and receivables and evaluate any impairment losses which are required to be made.

KEY AUDIT MATTERS (continued)

Impairment assessment of goodwill

Refer to note 21 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the carrying amount of the goodwill of the Group is HK$102,988,000. Impairment loss amounted to approximately HK$7,840,000 has been recognised for the current year on the goodwill. We focused on the impairment assessment of the goodwill as the magnitude of this goodwill is significant and assessment of the value in use of the relevant cash-generating units ("CGUs") involves management's judgments and estimates about the future results of these related businesses, key assumptions including revenue growth rate and gross profit margin, long-term growth rate and the discount rates applied to future cash flow forecast.	Our procedures in relation to management's impairment assessment on the goodwill included: – We evaluated and challenged the composition of the Group's future cash flow forecasts in each CGU, and the process by which they were drawn up, including testing the underlying value in use calculation. – We challenged the key assumptions including revenue growth rate, gross profit margin and long-term growth rate by comparing the current year's actual results with future plans. We considered the appropriateness of the discount rates adopted by management. – We have also considered the adequacy of the disclosure of impairment assessments of the goodwill set out in note 21 to the consolidated financial statements.

Impairment assessment for interests in associates

Refer to note 19 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the carrying amount of the Group's interests in associates is HK$737,846,000. Impairment loss amounted to approximately HK$190,000,000 has been recognised for the current year on the interests in associates. We focused on the impairment assessment of the Group's interests in associates as the magnitude of the interests in associates is significant and management assessment of the value in use involves judgments and estimates about the future results of the associates, key assumptions including revenue growth rate and gross profit margin and the discount rates applied to future cash flow forecast.	Our procedures in relation to management's impairment assessment on interests in associates included: – We evaluated and challenged the composition of the associates' future cash flow forecasts, and the process by which they were drawn up, including testing the underlying value in use calculation. – We challenged the key assumptions including revenue growth rate and gross profit margin by comparing the current year's actual results with future plans. We considered the appropriateness of the discount rates adopted by management.

KEY AUDIT MATTERS (continued)

Impairment assessment of oil properties

Refer to note 22 to the consolidated financial statements.

Key audit matter	How the matter was addressed in our audit
As at 31 December 2018, the carrying amount of the Group's oil properties is HK$145,175,000. Impairment loss amounted to approximately HK$34,332,000 has been recognised for the current year on the oil properties. We focused on the impairment assessment of the Group's oil properties as the magnitude of the oil properties is significant and management assessment of the value in use involves judgments and estimates, key assumptions including production reserves, future oil prices and discount rates applied to the future cash flow forecast.	Our procedures in relation to impairment assessment of oil properties included: – We obtained an understanding of the Group's impairment assessment process, including the valuation model adopted, assumptions used by management and independent external valuer appointed by the Group. – We evaluated the competence, capabilities, and objective of the external valuer. – We evaluated the historical accuracy of the cash flow projections prepared by the management by comparing the historical cash flow projections with the actual performance. – We evaluated and challenged the composition of the future cash flow forecasts to be derived from the oil properties, and the process by which they were drawn up, including testing the underlying value in use calculation. – We challenged the key assumptions including production reserves and future oil prices by comparing with information publicly available, including short-term oil prices extracted from US government website. We considered the appropriateness of the discount rates adopted by management.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

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

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

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

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

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

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

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

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

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

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

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

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

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

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

AUDITOR'S RESPONSIBILITY FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

- 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.

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

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

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matters 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.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 28 March 2019

Kwong Tin Lap
Practising certificate number: P01953

Unit 5-6, 7/F., Greenfield Tower, Concordia Plaza
1 Science Museum Road, Tsim Sha Tsui
Kowloon, Hong Kong

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
Continuing operations			
REVENUE	7	**11,536,943**	3,090,306
Cost of sales and services		**(11,469,113)**	(2,899,156)
Gross profit		**67,830**	191,150
Other income and gains	7	**1,831**	19,144
Reversal of impairment of interests in an associate	19	**15,910**	–
Selling and distribution expenses		**(218)**	(29)
Administrative expenses		**(57,942)**	(48,923)
Loss on disposal of an associate	19	**(8,757)**	–
Impairment of goodwill	21	**(7,840)**	(85,908)
Impairment of interests in associates	19	**(190,000)**	–
Impairment of oil properties	22	**(34,332)**	(38,934)
Impairment of trade receivables	24	**(92,955)**	(235)
Impairment of prepayments, deposits and other receivables	25	**(114,010)**	–
Share of loss of associates	19	**(2,858)**	(1,909)
Finance costs	8	**(49,172)**	(64,107)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	9	**(472,513)**	(29,751)
Income tax credit (expense)	12	**24,460**	(44,516)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS		**(448,053)**	(74,267)
Discontinued operations			
Net gain from discontinued operations	13	**–**	753,956
(LOSS) PROFIT FOR THE YEAR		**(448,053)**	679,689
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**(52,013)**	(24,055)
Reclassification adjustments relating to foreign operations disposed of during the year		**–**	(79,162)
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX		**(52,013)**	(103,217)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(500,066)**	576,472
(Loss) profit for the year from continuing operations attributable to:			
Owners of the Company		**(453,358)**	(91,336)
Non-controlling interests		**5,305**	17,069
		(448,053)	(74,267)
(Loss) profit for the year attributable to:			
Owners of the Company		**(453,358)**	670,520
Non-controlling interests		**5,305**	9,169
		(448,053)	679,689
Total comprehensive income attributable to:			
Owners of the Company		**(500,977)**	565,290
Non-controlling interests		**911**	11,182
		(500,066)	576,472

	Notes	2018 HK$	2017 HK$
(LOSS) EARNINGS PER SHARE	15		
For continuing operations			
– Basic		**(0.08)**	(0.02)
– Diluted		**N/A**	N/A
For continuing and discontinued operations			
– Basic		**(0.08)**	0.14
– Diluted		**N/A**	0.11

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	16	**202,333**	222,871
Investment property	17	**–**	–
Prepaid land lease payments	18	**50,811**	55,390
Interests in associates	19	**737,846**	936,749
Available-for-sale investments	20	**–**	–
Goodwill	21	**102,988**	110,828
Oil properties	22	**145,175**	179,296
Total non-current assets		**1,239,153**	1,505,134
CURRENT ASSETS			
Inventories	23	**567**	1,409
Prepaid land lease payments	18	**1,482**	1,282
Trade and bills receivables	24	**612,590**	208,157
Prepayments, deposits and other receivables	25	**855,106**	970,108
Income tax recoverable		**7,173**	–
Cash and cash equivalents	26	**43,579**	18,663
		1,520,497	1,199,619
Assets classified as held for sale	27	**12,688**	20,292
Total current assets		**1,533,185**	1,219,911
CURRENT LIABILITIES			
Trade payables	28	**708,494**	28,417
Other payables and accruals	29	**809,352**	888,574
Bank and other borrowings	30	**414,412**	144,551
Convertible bonds	31	**–**	289,553
Promissory notes payable	32	**52,000**	52,000
Obligations under finance leases	33	**86**	85
Income tax payable		**4,528**	7,019
		1,988,872	1,410,199
Liability directly associated with assets classified as held for sale	27	**–**	1,801
Total current liabilities		**1,988,872**	1,412,000
NET CURRENT LIABILITIES		**(455,687)**	(192,089)
TOTAL ASSETS LESS CURRENT LIABILITIES		**783,466**	1,313,045

Consolidated Statement of Financial Position

As at 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT LIABILITIES			
Obligations under finance leases	33	**197**	283
Assets retirement obligations	34	**12,053**	11,393
Deferred tax liabilities	35	**32,077**	62,332
Total non-current liabilities		**44,327**	74,008
Net assets		**739,139**	1,239,037
EQUITY			
Share capital	36	**57,036**	57,036
Reserves		**600,306**	1,101,115
Equity attributable to owners of the Company		**657,342**	1,158,151
Non-controlling interests		**81,797**	80,886
Total equity		**739,139**	1,239,037

The consolidated financial statements on pages 67 to 159 were approved and authorised for issue by the board of Directors on 28 March 2019 and are signed on its behalf by:

Cai Jianjun
Director

Wang Xiusong
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2018

	Attributable to owners of the Company										
	Share capital HK$'000 (Note 36)	Share premium account HK$'000 (Note 36)	Share option reserve HK$'000 (Note 38(a))	Equity component of convertible bonds HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000 (Note 38(b))	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2017	43,099	1,082,509	4,158	66,356	128,171	688,569	773,090	(2,582,478)	203,474	1,407	204,881
Profit for the year	–	–	–	–	–	–	–	670,520	670,520	9,169	679,689
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	–	–	–	–	(105,230)	–	–	–	(105,230)	2,013	(103,217)
Total comprehensive income for the year	–	–	–	–	(105,230)	–	–	670,520	565,290	11,182	576,472
Issue of shares upon conversion of convertible bonds	13,937	409,588	–	(34,923)	–	–	–	–	388,602	–	388,602
Shares options lapsed	–	–	(1,439)	–	–	–	–	1,439	–	–	–
Disposal of subsidiaries	–	–	–	–	–	–	–	–	–	68,297	68,297
Transfer to accumulated losses on disposal of subsidiaries	–	–	–	–	–	(527,867)	–	527,867	–	–	–
Transfer from accumulated losses to capital reserve	–	–	–	–	–	15,404	–	(15,404)	–	–	–
Share of reserve of an associate	–	–	785	–	–	–	–	–	785	–	785
As 31 December 2017	**57,036**	**1,492,097**	**3,504**	**31,433**	**22,941**	**176,106**	**773,090**	**(1,398,056)**	**1,158,151**	**80,886**	**1,239,037**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(453,358)**	**(453,358)**	**5,305**	**(448,053)**
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**(47,619)**	**–**	**–**	**–**	**(47,619)**	**(4,394)**	**(52,013)**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**(47,619)**	**–**	**–**	**(453,358)**	**(500,977)**	**911**	**(500,066)**
Transfer to accumulated losses upon redemption of convertible bond	**–**	**–**	**–**	**(31,433)**	**–**	**–**	**–**	**31,433**	**–**	**–**	**–**
Transfer from accumulated losses to capital reserve	**–**	**–**	**–**	**–**	**–**	**2,062**	**–**	**(2,062)**	**–**	**–**	**–**
Share of reserve of an associate	**–**	**–**	**168**	**–**	**–**	**–**	**–**	**–**	**168**	**–**	**168**
At 31 December 2018	**57,036**	**1,492,097**	**3,672**	**–**	**(24,678)**	**178,168**	**773,090**	**(1,822,043)**	**657,342**	**81,797**	**739,139**

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
(Loss) profit for the year		**(448,053)**	679,689
Adjustments for:			
Income tax (credit) expense	12	**(24,460)**	122,818
Share of loss of associates		**2,858**	1,909
Finance costs		**49,172**	136,094
Impairment of goodwill		**7,840**	85,908
Impairment of interests in associates		**190,000**	–
Impairment of oil properties		**34,332**	38,934
Impairment of trade receivables		**92,955**	1,074
Impairment of prepayments, deposits and other receivables		**114,010**	47,619
Depreciation of property, plant and equipment		**14,786**	26,025
Accretion expenses – oil properties		**815**	772
Amortisation of prepaid land lease payments		**1,494**	2,161
Amortisation of oil properties		**1,710**	2,232
Reversal of write-down of inventories		**–**	(6,886)
Interest income		**(91)**	(157)
Gain on disposal of subsidiaries	39	**–**	(897,065)
Loss on disposal of an associate		**8,757**	–
Loss (gain) on disposal of property, plant and equipment		**24**	(226)
Gain on change in fair value of an investment property		**–**	(4,212)
Reimbursement of depreciation charge		**–**	(6,327)
Reversal of impairment of trade receivables		**–**	(14,056)
Reversal of impairment of interests in an associate		**(15,910)**	–
Net foreign exchange gains		**(5,201)**	5,531
		25,038	221,837
Decrease (increase) in inventories		**847**	(41,016)
(Increase) decrease in trade and bills receivables		**(552,710)**	384,634
Increase in prepayments, deposits and other receivables		**(48,684)**	(223,123)
Decrease in net amounts due from related companies		**–**	29,552
Increase (decrease) in trade payables		**707,479**	(492,849)
(Decrease) increase in other payables and accruals		**(7,490)**	123,378
Utilisation of assets retirement obligations	34	**(181)**	(1,529)
Cash generated by operations		**124,299**	884
Income tax paid		**(15,472)**	(71,917)
Net cash generated by (used in) operating activities		**108,827**	(71,033)

Consolidated Statement of Cash Flows

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		**91**	157
Purchase of property, plant and equipment		**(16,700)**	(16,789)
Proceed from disposal of property, plant and equipment		**31**	226
Additions of prepaid land lease payments		**–**	(6,115)
Additions of oil properties		**(1,464)**	(3,076)
Disposal of subsidiaries	39	**5,155**	6,990
Disposal of an associate		**12,999**	–
Increase in pledged bank deposits		**–**	(1,234)
Deposit received from disposal of a subsidiary		**–**	13,808
Deposit for acquisition of a subsidiary refunded		**–**	18,740
Net cash generated by investing activities		**112**	12,707
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		**(18,653)**	(42,811)
Proceed from new bank and other borrowings		**41,254**	241,733
Repayment of banks and other borrowings		**(106,358)**	(211,586)
Repayment of finance leases		**(86)**	(62)
Net cash used in financing activities		**(83,843)**	(12,726)
NET INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS		**25,096**	(71,052)
Cash and cash equivalents at beginning of the year		**5,696**	75,293
Effect of foreign exchange rate changes, net		**(1,935)**	1,455
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		**28,857**	5,696
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	26	**43,579**	18,663
Bank overdrafts	30	**(14,722)**	(12,967)
		28,857	5,696

1 GENERAL

Silk Road Logistics Holdings Limited (the "Company", formerly known as Loudong General Nice Resources (China) Holdings Limited) was incorporated in Bermuda as an exempted company with limited liability under the Companies Act 1981 of Bermuda (as amended). Its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is situated at Unit B, 12/F., Lippo Leighton Tower, 103 Leighton Road, Causeway Bay, Hong Kong.

Pursuant to the special resolution passed at the special general meeting of the Company held on 22 December 2017, the shareholders of the company have approved the change of the Company's name from Loudong General Nice Resources (China) Holdings Limited to Silk Road Logistics Holdings Limited and the new name was registered in the Registry of Companies in Bermuda on 4 January 2018.

The Company is an investment holding company. The principal activities of the Company's subsidiaries are trading of commodities and exploration and production of oil and provision of well services, and provision of logistics and warehousing services.

As referred to in note 13, the Company entered into an agreement for the disposal of its 100% equity interests in Buddies Power Enterprises Limited ("Buddies Power") and its subsidiaries (collectively the "Buddies Power Group") on 26 June 2017. Completion of the disposal of Buddies Power Group took place on 29 September 2017 and the Group discontinued its operations of coal processing and production of metallurgical coke and by-products (the "Discontinued Operations") undertaken by Buddies Power Group as from that date. The results of the Discontinued Operations for the year ended 31 December 2017 are separately presented in the consolidated statement of profit or loss and other comprehensive income.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

In preparing the consolidated financial statements of the Group, comprising the Company and its subsidiaries, the directors of the Company have given consideration to the future liquidity of the Group in light of the fact that the Group's current liabilities exceed its current assets by HK$455,687,000. As at 31 December 2018, the Group had bank and other borrowings with principal amounts of HK$414,412,000 to be matured within one year after that date, which are included in current liabilities.

Notwithstanding the aforesaid conditions, the consolidated financial statements have been prepared on a going concern basis on the assumption that the Group is able to operate as a going concern for the foreseeable future. In the opinion of the directors of the Company, the Group can meet its financial obligations as and when they fall due within the next year from the date of approval of these consolidated financial statements, after taking into consideration of the measures and arrangements made by the Group as detailed below:

(a) On 22 March 2019, the Company entered into a loan agreement with an independent third party under which a loan facility of HK$700,000,000 was granted to the Company. The loan, which is unsecured, carries interest at 13% per annum and is due for repayment immediately after one year from the date of the first drawdown of any amount of the loan. Up to the date of approval of these consolidated financial statements, this loan facility was not utilised by the Company.

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS (continued)

(b) The directors will continuously and closely monitor the Group's liquidity position and financial performance and implement measures to improve the Group's cash flows.

In light of the measures and arrangements implemented to date, the directors of the Company are of the view that the Group has sufficient cash resources to satisfy its working capital and other financial obligations for the next year from the date of approval of these consolidated financial statements after having taken into account of the Group's projected cash flows, current financial resources and capital expenditure requirements with respect to the production facilities and development of its business. Accordingly, the directors of the Company are of the view that it is appropriate to prepare these consolidated financial statements on a going concern basis.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these potential adjustments have not been reflected in the consolidated financial statements.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and revised HKFRSs applied in the current year

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

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

The new and amendments to HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs applied in the current year (continued)

HKFRS 15 "Revenue from Contracts with Customers"

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

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

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

- Trading of commodities
- Exploration and production of oil as well as provision of well drilling services
- Provision of transportation and warehousing services

Revenue from leasing of investment properties will continue to be accounted for in accordance with HKAS 17 "Lease".

Information about the Group's performance obligations and the accounting policies resulting from application of HKFRS 15 are disclosed in notes 6 and 4 respectively.

Taking into account the changes in accounting policy arising from initial application of HKFRS 15, the directors of the Company consider that the initial application of HKFRS 15 has no material impact to the consolidated financial statements of the Group.

HKFRS 9 "Financial Instruments" and the related amendments

In the current year, the Group has applied HKFRS 9 "Financial Instruments" and the related consequential amendments to other HKFRSs, HKFRS 9 introduces new requirements for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and other items (for example, contract assets, lease receivables and financial guarantee contracts) and (iii) general hedge accounting.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and revised HKFRSs applied in the current year (continued)

HKFRS 9 "Financial Instruments" and the related amendments (continued)

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

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

Summary of effects arising from initial application of HKFRS 9

Impairment under ECL model

1. The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL trade receivables. Except for those which had been determined as credit impaired under HKFRS 39, trade receivables have been assessed individually with outstanding significant balances, the remaining balances are grouped based on past due analysis.

2. ECL for other financial assets at amortised cost, including loan and interest receivables, other receivables, amounts due from related companies, amount due from an associate, amount due from a joint venture, amount due from non-controlling interest, and bank balances are assessed on twelve-month ECL basis as these had been no significant increase in credit risk since initial recognition.

3. The application of the ECL model of HKFRS 9 has no material impact on the accumulated amount of impairment loss on financial assets at amortised costs recognised by the Group as at 1 January 2018 as compared to the accumulated amount recognised under HKFRS 39.

The application of the other new and revised HKFRSs applied in the current year has had no material impact on the Group's financial performance and financial position for the current and prior years and/or on the disclosures set out in the consolidated financial statements.

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

New and amendments to HKFRSs in issue but not yet effective

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

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

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

Except for HKFRS 16 mentioned below, the directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

HKFRS 16 "Leases"

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

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

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

3 APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (continued)

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

HKFRS 16 "Leases" (continued)

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents upfront prepaid lease payments as investing cash flows in relation to leasehold land for owned use and those classified as investment properties while other operating lease payments are presented as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing cash flows by the Group.

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

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

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group as lessee has non-cancellable operating lease commitments of HK$25,807,000 as disclosed in note 42. A preliminary assessment indicates that these arrangements will meet the definition of a lease under HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

In addition, the Group currently considers refundable rental deposits paid of HK$5,000 and refundable rental deposits received of HK$478,000 as rights and obligations under leases to which HKAS 17 applies. Based on the definition of lease payments under HKFRS 16, such deposits are not payments relating to the right to use the underlying assets, accordingly, the carrying amounts of such deposits may be adjusted to amortised cost. Adjustments to refundable rental deposits paid would be considered as additional lease payments and included in the carrying amount of right-of-use assets. Adjustments to refundable rental deposits received would be considered as advance lease payments.

Furthermore, the application of new requirements may result in changes in measurement, presentation and disclosure as indicated above.

4 SIGNIFICANT ACCOUNTING POLICIES

These consolidated financial statements have been prepared in accordance with HKFRSs (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the HKICPA, accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules").

The consolidated financial statements have been prepared under the historical cost convention, except for investment property which is measured at fair value as explained in the accounting policies set out below. Historical cost is generally based on the fair value of the consideration given in exchange for goods.

These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except where indicated.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. The 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.

All assets and liabilities for which fair value is measured or disclosed in the financial statements are categorised within the fair value hierarchy, described as follows, based on the lowest level input that is significant to the fair value measurement as a whole:

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities

Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly

Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement (continued)

For assets and liabilities that are recognised at fair value in the consolidated financial statements on a recurring basis, the Group determines whether transfers have occurred between levels in the hierarchy by reassessing categorisation (based on the lowest level input that is significant to the fair value measurement as a whole) at the end of each reporting period.

The principal accounting policies are set out below.

Basis of consolidation

The consolidated financial statements include the financial statements of the Company and its subsidiaries.

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group has power over the investee; 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.

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 aforementioned three elements of control. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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.

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 Company 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.

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 profits, as appropriate, on the same basis as would be required if the Group had directly disposed of the related assets or liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

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.

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 the consideration transferred, the amount recognised for non-controlling interests and any fair value of the Group's previously held equity interests in the acquiree over 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.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

An associate is an entity, in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise 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 results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's 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.

An investment in an associate is accounted for using the equity method from the date on which the investee becomes an associate. On acquisition of the investment in an associate, any excess of the cost of the investment over the Group's share of the net fair value of the identifiable assets and liabilities of the investee is recognised as goodwill, which is included within the carrying amount of the investment.

Any excess of the Group's share of the net fair value of the identifiable assets and liabilities over the cost of the investment, after reassessment, is recognised immediately in profit or loss in the period in which the investment is acquired.

The requirements of HKFRS 9/HKAS 39 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 HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9/HKAS 39. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of interest in the associate is included in the determination of the gain or loss on disposal of the associate. 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 equity method is discontinued.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

When a group entity transacts with 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 interests in the associate that are not related to the Group.

When an investment in an associate is classified as held for sale, it is accounted for in accordance with HKFRS 5 Non-current Assets Held for Sale and Discontinued Operations.

Non-current assets held for sale

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

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

When the Group is committed to a sale plan involving disposal of an investment, or a portion of an investment, in an associate, the investment or the portion of the investment will be disposed of is classified as held for sale when the criteria described above are met, and the Group discontinues the use of the equity method in relation to the portion that is classified a held for sale. Any retained portion of an investment in an associate that has not been classified as held for sale continues to be accounted for using the equity method.

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than goodwill, investment property, inventories and financial assets), the asset's recoverable amount is estimated. 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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 recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, 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. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. 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.

Construction in progress represents production facilities under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and borrowing costs capitalised in accordance with the Group's accounting policies. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

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

Leasehold land	Over the lease term
Buildings	30 years
Plant facilities	30 years
Office equipment	10 years
Oil equipment	2-30 years
Machinery	20 years
Motor vehicles	10 years
Plant infrastructure	20 years
Leasehold improvements, furniture and fixtures	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 if appropriate, at the end of each reporting period with any change in estimate accounted for on a prospective basis.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are interests in land and buildings held to earn rental income and/or for capital appreciation, rather than for use in the production or supply of goods or services or for administrative purposes; or for sale in the ordinary course of business. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are accounted for as investment properties and are measured using the fair value model.

Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from the disposal. Any gain or loss arising on derecognition of the property (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the period in which the property is derecognised.

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 their fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently 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 the end of each reporting period.

Oil properties

The successful efforts method of accounting is adopted. The Group capitalises the initial acquisition costs of oil properties. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgement and charged to profit or loss. The cost of drilling and equipping successful exploratory wells, all development expenditure on construction, installation or completion of infrastructure facilities, such as platforms, pipelines, processing plants and the drilling of development wells and the building of enhanced recovery facilities, including those renewals and betterments that extend the economic lives of the assets, and the related borrowing costs are capitalised. The cost of unsuccessful exploratory wells and all other exploration costs are expensed as incurred.

The Group carries exploratory well costs as an asset when the well has found a sufficient quantity of reserves to justify its completion as a producing well and where the Group is making sufficient progress assessing the reserves and the economic and operating viability of the project. Exploratory well costs not meeting these criteria are charged to expenses. Exploratory wells that discover potentially economic reserves in areas where major capital expenditure will be required before production would begin and when the major capital expenditure depends upon the successful completion of further exploratory work remain capitalised and are reviewed periodically for impairment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Intangible assets (other than goodwill) (continued)

Oil properties (continued)

The capitalised acquisition costs of oil properties are amortised on a unit-of-production basis over the estimated proved and probable reserves of the relevant oil properties. Common facilities that are built specifically to service production directly attributed to designated oil properties are depreciated based on the proved and probable reserves of the respective oil properties on a pro-rata basis. Common facilities that are not built specifically to service identified oil properties are depreciated using the straight-line method over their estimated useful lives. Costs associated with significant development projects are not depreciated until commercial production commences and the reserves related to those costs are excluded from the calculation of depreciation.

Leases

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

The Group as lessor

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

The Group as lessee

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

Leasehold land for own use

When a lease includes both land and building elements, the Group assesses the classification of each element as a finance or an operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as 'prepaid land lease payments' in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial instruments

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

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

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

Interest income which is derived from the Group's ordinary course of business is included in other income and gains.

Financial assets

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

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

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL"), except that at the date of initial application/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 that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 "Business Combinations" applies.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

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

(ii) Equity instruments designated as at FVTOCI

Investments in equity instruments at FVTOCI are subsequently measured at fair value with gains and losses arising from changes in fair value recognised in other comprehensive income and accumulated in the investment revaluation reserve; and are not subject to impairment assessment. The cumulative gain or loss will not be reclassified to profit or loss on disposal of the equity investments, and will continue to be held in the investment revaluation reserve.

Dividends from these investments in equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established, unless the dividends clearly represent a recovery of part of the cost of the investment.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

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

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

The Group always recognises lifetime ECL for trade receivables. The ECL on these assets are assessed individually for debtors with significant balances and collectively using a provision matrix with appropriate groupings.

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

(i) Significant increase in credit risk

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 90 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

(ii) Definition of default

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

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

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

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

(v) Measurement and recognition of ECL

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

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

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

- Nature of financial instruments (i.e. the Group's trade and other receivables are each assessed as a separate group. Amounts due from related parties are assessed for expected credit losses on an individual basis);
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

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

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

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

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

Initial recognition and measurement

Financial assets are classified, at initial recognition, as financial assets at fair value through profit or loss, loans and receivables and available-for-sale financial investments, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus transaction costs that are attributable to the acquisition of the financial assets, except in the case of financial assets at fair value through profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Initial recognition and measurement (continued)

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

Subsequent measurement

The subsequent measurement of financial assets depends on their classification as follows:

Financial assets at fair value through profit or loss

Financial assets at fair value through profit or loss include financial assets held for trading and financial assets designated upon initial recognition as at fair value through profit or loss. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments as defined by HKAS 39.

Financial assets at fair value through profit or loss are carried in the consolidated statement of financial position at fair value with changes in fair value recognised in profit or loss. The fair value changes do not include any dividends or interest earned on these financial assets, which are recognised in accordance with the policies set out for "Revenue recognition" 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. After initial measurement, such assets (including trade and bills receivables, other receivables, amounts due from related companies, pledged bank deposits and cash and cash equivalents) are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in finance costs.

Available-for-sale financial investments

Available-for-sale financial investments are non-derivative listed and unlisted equity investments and debt securities. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss. Debt securities in this category are those which are intended to be held for an indefinite period of time and which may be sold in response to needs for liquidity or in response to changes in market conditions.

After initial recognition, available-for-sale financial investments are subsequently measured at fair value, with changes in fair value recognised as other comprehensive income in available-for-sale investment revaluation reserve until the investment is derecognised or is determined to be impaired, at which time the cumulative gain or loss included in investment revaluation reserve is reclassified to profit or loss. Interest and dividends earned whilst holding the available-for-sale financial investments are reported as interest income and dividend income, respectively and are recognised in other income in accordance with the accounting policies set out for "Revenue recognition" below.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Available-for-sale financial investments (continued)

When the fair value of unlisted equity investments cannot be reliably measured because (a) the variability in the range of reasonable fair value estimates is significant for that investment or (b) the probabilities of the various estimates within the range cannot be reasonably assessed and used in estimating fair value, such investments are stated at cost less any impairment losses.

Impairment of financial assets

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults. In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost.

Financial assets carried at amortised cost

For financial assets carried at amortised cost, the Group first assesses whether impairment exists individually for financial assets that are individually significant, or collectively for financial assets that are not individually significant. If the Group determines that no objective evidence of impairment exists for an individually assessed financial asset, whether significant or not, it includes the asset in a group of financial assets with similar credit risk characteristics and collectively assesses them for impairment. Assets that are individually assessed for impairment and for which an impairment loss is, or continues to be, recognised are not included in a collective assessment of impairment.

The amount of any impairment loss identified is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not yet been incurred). The present value of the estimated future cash flows is discounted at the financial asset's original effective interest rate (i.e., the effective interest rate computed at initial recognition).

The carrying amount of the asset is reduced through the use of an allowance account and the loss is recognised in profit or loss. Interest income continues to be accrued on the reduced carrying amount and is accrued using the rate of interest used to discount the future cash flows for the purpose of measuring the impairment loss. Loans and receivables together with any associated allowance are written off when there is no realistic prospect of future recovery and all collateral has been realised or has been transferred to the Group.

Include other criteria for writing off amounts charged to the allowance account against the carrying amount of impaired financial assets.

If, in a subsequent period, the amount of the estimated impairment loss increases or decreases because of an event occurring after the impairment was recognised, the previously recognised impairment loss is increased or reduced by adjusting the allowance account. If a write-off is later recovered, the recovery is credited to other expenses in profit or loss.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (before application of HKFRS 9 on 1 January 2018) (continued)

Financial assets carried at cost

If there is objective evidence that an impairment loss has been incurred on an unquoted equity instrument that is not carried at fair value because its fair value cannot be reliably measured, or on a derivative asset that is linked to and must be settled by delivery of such an unquoted equity instrument, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the current market rate of return for a similar financial asset. Impairment losses on these assets are not reversed.

Financial liabilities

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at fair value through profit or loss, and other financial liabilities.

All financial liabilities are recognised initially at fair value and, in the case of other financial liabilities, net of directly attributable transaction costs.

Subsequent measurement

The subsequent measurement of financial liabilities depends on their classification as follows:

Financial liabilities at fair value through profit or loss

Financial liabilities at fair value through profit or loss includes financial liabilities held for trading and financial liabilities designated upon initial recognition as at fair value through profit or loss.

Financial liabilities are classified as held for trading if they are acquired for the purpose of repurchasing in the near term. This category includes derivative financial instruments entered into by the Group that are not designated as hedging instruments in hedge relationships as defined by HKFRS 9/HKAS 39. Separated embedded derivatives are also classified as held for trading unless they are designated as effective hedging instruments. Gains or losses on financial liabilities held for trading are recognised in profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any interest charged on these financial liabilities.

Financial liabilities designated upon initial recognition at fair value through profit or loss are designated at the date of initial recognition and only if the criteria of HKFRS 9/HKAS 39 are satisfied.

Other financial liabilities

Other financial liabilities (including trade payables, other payables and accruals, bank and other borrowings, promissory notes payable and obligations under finance leases) are subsequently measured at amortised cost using the effective interest method.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Convertible bonds

The component parts of compound instruments (convertible bonds) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. When the conversion option remains unexercised at the maturity date of the convertible bonds, the balance recognised in equity will be transferred to accumulated losses. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible notes are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bonds using the effective interest method.

Derecognition of financial assets

A financial asset (or, where applicable, a part of a financial asset or part of a group of similar financial assets) is derecognised (i.e., removed from the Group's consolidated statement of financial position) when:

- the rights to receive cash flows from the asset have expired; or
- the Group has transferred its rights to receive cash flows from the asset or has assumed an obligation to pay the received cash flows in full without material delay to a third party under a "pass-through" arrangement; and either (a) the Group has transferred substantially all the risks and rewards of the asset, or (b) the Group has neither transferred nor retained substantially all the risks and rewards of the asset, but has transferred control of the asset.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets (continued)

When the Group has transferred its rights to receive cash flows from an asset or has entered into a pass-through arrangement, it evaluates if and to what extent it has retained the risk and rewards of ownership of the asset. When it has neither transferred nor retained substantially all the risks and rewards of the asset nor transferred control of the asset, the Group continues to recognise the transferred asset to the extent of the Group's continuing involvement. In that case, the Group also recognises an associated liability. The transferred asset and the associated liability are measured on a basis that reflects the rights and obligations that the Group has retained.

On derecognition of a financial asset, in its entirety, 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.

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit and loss.

When an existing financial liability is replaced by another from the same lender on substantially different terms, or the terms of an existing liability are substantially modified, such an exchange or modification is treated as a derecognition of the original liability and a recognition of a new liability, and the difference between the respective carrying amounts is recognised in the statement of profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is determined on the weighted average basis and in the case of work in progress and finished goods, comprises direct materials, direct labour and an appropriate proportion of overheads. Net realisable value is based on estimated selling prices less any estimated costs to be incurred to completion and disposal.

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, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Provisions

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 expenditures 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.

A contingent liability recognised in a business combination is initially measured at its fair value. Subsequently, it is measured at the higher of (i) the amount that would be recognised in accordance with HKAS 37 "Provisions, Contingent Liabilities and Contingent Assets"; and (ii) the amount initially recognised less, when appropriate, cumulative amortisation recognised in accordance with HKAS 18 "Revenue".

Asset retirement obligation

Asset retirement obligation is recognised in full on the installation of oil properties. The amount recognised is the present value of the estimated future expenditure determined in accordance with local conditions and requirements. A corresponding addition to the related oil properties of an amount equivalent to the provision is also created. Changes in the estimated timing of the asset abandonment or asset abandonment cost estimated are dealt with prospectively by recording an adjustment to the provision, and a corresponding adjustment to oil properties. The unwinding of the discount on the asset retirement obligation is included as a finance cost.

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 for the current and prior periods 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.

Deferred tax is provided 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; and

- in respect of taxable temporary differences associated with investments in subsidiaries and associates, 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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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, the carryforward of unused tax credits and unused tax losses can be utilised.

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.

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.

Government grants

Government grants are recognised at their fair value where there is reasonable assurance that the grant will be received and all attaching conditions will be complied with. When the grant relates to an expense item, it is recognised as income on a systematic basis over the periods that the costs which it is intended to compensate are expensed.

Where the grant relates to an asset, the fair value is credited to a deferred income account and is released to profit or loss over the expected useful life of the relevant asset by equal annual instalments or deducted from the carrying amount of the asset and released to profit or loss by way of a reduced depreciation charge. Where the Group receives grant of non-monetary assets, the grants are recorded at the fair value of the non-monetary assets and released to profit or loss over the expected useful lives of the relevant assets by equal annual instalments.

Where the Group receives government loans granted with no or at a below-market rate of interest for the construction of a qualifying asset, the initial carrying amount of the government loans is determined using the effective interest rate method, as further explained in the accounting policy for “Financial liabilities” above. The benefit of the government loans granted with no or at a below-market rate of interest, which is the difference between the initial carrying value of the loans and the proceeds received, is treated as a government grant and released to profit or loss over the expected useful life of the relevant asset by equal annual instalments.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

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

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

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

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

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

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

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer. These customer advances are included in other payables and accruals.

Based on the historical pattern, revenue from logistics service is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation, as the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs.

Revenue from commodities and oil sales is recognised at a point in time when the commodities and oil are served.

Contracts with multiple performance obligations (including allocation of transaction price)

For contracts that contain more than one performance obligations, the Group allocates the transaction price to each performance obligation on a relative stand-alone selling price basis, except for the allocation of discounts.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

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

Contracts with multiple performance obligations (including allocation of transaction price) (continued)

The stand-alone selling price of the distinct goods or service underlying each performance obligation is determined at contract inception. It represents the price at which the Group would sell promised goods or service separately to a customer. If a stand-alone selling price is not directly observable, the Group estimates it using appropriate techniques such that the transaction price ultimately allocated to any performance obligation reflects the amount of consideration to which the Group expects to be entitled in exchange for transferring the promised goods or services to the customer.

Over time revenue recognition: measurement of progress towards complete satisfaction of a performance obligation

Output method

The progress towards complete satisfaction of a performance obligation is measured based on output method, which is to recognise revenue on the basis of direct measurements of the value of the goods or services transferred to the customer to date relative to the remaining goods or services promised under the contract, that best depict the Group's performance in transferring control of goods or services.

Revenue recognition (prior to 1st January 2018)

Revenue is measured at the fair value of the consideration received or receivable and represents amounts received and receivable for goods sold and services provided in the normal course of business, net of discounts and sales related taxes.

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;

(b) rental income, on a straight-line basis over the lease terms;

(c) logistics and warehousing income, when the relevant service has been rendered; and

(d) 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 assets.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Share-based payments

The Company operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Employees (including directors) of the Group receive remuneration in the form of share-based payment, whereby employees render services as consideration for equity instruments ("equity-settled share-based payments").

The cost of equity-settled transactions with employees for grants is measured by reference to the fair value at the date at which they are granted. The cost of equity-settled share-based payments is recognised, together with a corresponding increase in equity, over the vesting period. The cumulative expense recognised for equity-settled share-based payments at the end of each reporting period reflects the extent to which the vesting period has expired and the Group's best estimate of the number of equity instruments that will ultimately vest. The charge or credit to profit or loss for a period represents the movement in the cumulative expense recognised as at the beginning and end of that period.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

Where share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

Other employee benefits

For the Company and its subsidiaries located in Hong Kong

Pension scheme

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits (continued)

For the subsidiaries located in the People's Republic of China ("PRC")

(a) *Pension obligations*

The Group contributes on a monthly basis to various defined contribution retirement benefit plans organised by relevant municipal and provincial governments in the PRC. The municipal and provincial governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

(b) *Medical benefit costs*

The Group participates in government-organised defined contribution medical benefits plans, under which it pays contribution to the plans at a fixed percentage of wages and salaries of the existing full time employees in the PRC and has no further legal or constructive obligations to pay additional contributions. The contributions are charged as an expense to profit or loss as incurred.

(c) *Housing fund*

The Group contributes on a monthly basis to defined contribution housing fund plans organised by the PRC government. Contributions to these plans by the Group are expensed as incurred.

For subsidiaries located in United States of America ("USA")

Pension scheme

The Group contributes on a monthly basis to the Social Security Trust Fund maintained by the United States Treasury. The Federal and States governments undertake to assume the retirement benefit obligations payable to all existing and future retired employees under these plans and the Group has no further obligation for post-retirement benefits beyond the contributions made. Contributions to these plans are expensed as incurred.

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.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

Final dividends proposed by the directors are classified as a separate allocation of retained profits within the equity section of the consolidated statement of financial position, until they have been approved by the shareholders in a general meeting. When these dividends have been approved by the shareholders and declared, they are recognised as a liability.

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 Hong Kong dollars, which is the Company's functional and presentation 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 the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies are translated at the rates of exchange ruling at the end of the reporting period. Differences arising on settlement or translation of monetary items are recognised in the 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 overseas subsidiaries and associates are currencies other than Hong Kong dollars. For the purpose of presenting consolidated financial statements, the assets and liabilities of these entities are translated into the presentation currency at the exchange rates prevailing at the end of the reporting period and their income and expenses are translated into Hong Kong dollars at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the dates of the transactions are used. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

On the disposal of a foreign operation (i.e. a disposal of the Group's entire interest in a foreign operation, a disposal involving loss of control over a subsidiary that includes a foreign operation, or a partial disposal of an interest in an associate that includes a foreign operation of which the retained interest becomes a financial asset), all of the exchange differences accumulated in equity in respect of that operation attributable to the owners of the Company are reclassified to profit or loss.

In addition, in relation to a partial disposal of a subsidiary that includes a foreign operation that does not result in the Group losing control over the subsidiary, the proportionate share of accumulated exchange differences are re-attributed to non-controlling interests and are not recognised in profit or loss.

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 exchange rate prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

In the process of applying the Group's accounting policies, management has made the following judgments, apart from those involving estimations, which have the most significant effect on the amounts recognised in the consolidated financial statements:

Impairment of assets

In determining whether an asset is impaired or the event previously causing the impairment no longer exists, the Group has to exercise judgment in the area of asset impairment, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or derecognition; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test.

Income taxes

Significant judgments on the future tax treatment of certain transactions are required in determining income tax provisions. The Group carefully evaluates tax implications of transactions and tax provisions are recorded accordingly. The tax treatment of such transactions is reconsidered periodically to take into account all changes in tax legislation.

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.

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 (the "CGU") 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 is HK$102,988,000 (2017: HK$110,828,000). Impairment of goodwill amounted to HK$7,840,000 (2017: HK$85,908,000) was charged to the profit or loss in respect of the current year. Details regarding the goodwill are disclosed in note 21 to the consolidated financial statements.

Impairment of investments in associates

The Group assesses whether there are any indications of impairment of associates at the end of each reporting period. Investments in associates are tested for impairment when there are indications that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher or its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available information 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 estimates 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.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of property, plant and equipment

The recoverable amount of an item/a group of property, plant and equipment is the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group's management uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying value of the assets and could result in additional impairment charge or reversal of impairment in future periods.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to unused tax losses was recognised at 31 December 2017 and 2018. Further details are disclosed in note 35 to the consolidated financial statements.

Useful lives of property, plant and equipment

The management of the Group determines the estimated useful lives and related depreciation charges for its property, plant and equipment. This estimate is based on the historical experience of the actual useful lives of the property, plant and equipment of similar nature and functions. It could change significantly as a result of technical innovation. Management will change the depreciation charge where useful lives are different from the previously estimated lives. It will also write-off or write down technically obsolete or non-strategic assets that have been abandoned or sold.

Provision for impairment of receivables

The policy for the provision for impairment of receivables of the Group is based on the evaluation of collectibles and ageing analysis of accounts and on the management's judgement. A considerable amount of judgment is required in assessing the ultimate realisation of these receivables, including the current creditworthiness and the past collection history of each customer.

Estimation of oil reserves

Estimates of oil reserve are regarded an important element in testing for impairment of oil properties. Changes in proven and probable oil reserves will affect unit-of-production depreciation and amortisation recorded in the Group's consolidated financial statements for oil properties.

Proven and probable reserve estimates are subject to revision, either upward or downward, as warranted by additional data. Revisions are necessary due to changes in assumptions based on, among other things, reservoir performance, prices, economic conditions and government restrictions.

Estimation on asset retirement obligation

Asset abandonment costs will be incurred by the Group at the end of the operating life of the oil wells and equipment. The abandonment cost estimates varies in response to many factors including changes to relevant legal requirements, emergence of new restoration techniques or experience at other production sites. The expected timing and amount of expenditure would also change in response to changes in reserves or changes in laws regulations or their interpretation. The present values of these estimated future abandonment costs are included in cost of oil properties with equivalent amounts recognised as asset retirement obligations.

6 OPERATING SEGMENT INFORMATION

The directors determine its operating segments based on the regular internal financial information reported to the Group's executive directors for their decisions about resources allocation to the Group's business units and review of these units' performance.

The Group is organised into business units based on their products and services and had four reportable operating segments as follows:

Continuing operations

(a) Commodities trading: Trading of commodities;

(b) Oil segment: Exploration and production of oil as well as provision of well drilling services; and

(c) Logistics segment: Provision of transportation and warehousing services.

Discontinued operations

Coke manufacturing segment: Production and sales of metallurgical coke.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement. There were no intersegment sales in the current year (2017: Nil).

Segment assets exclude cash and cash equivalents, and other unallocated head office and corporate assets as these assets are managed on a group basis. Segment liabilities exclude promissory notes payable, convertible bonds, deferred tax liabilities and other unallocated head office and corporate liabilities as these liabilities are managed on a group basis.

6 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

	Continuing operations				Discontinued operations	
	Commodities trading HK$'000	Oil HK$'000	Logistics HK$'000	Total HK$'000	Coke manufacturing HK$'000	Total HK$'000
Segment revenue						
Sales to external customers	11,522,950	5,376	8,617	11,536,943	–	11,536,943
Segment loss	(114,502)	(24,104)	(249,175)	(387,781)	–	(387,781)
Interest income						91
Unallocated income						863
Unallocated expense						(36,514)
Finance costs						(49,172)
Loss before tax						(472,513)
Income tax credit						24,460
Loss for the year						(448,053)
Segment assets	1,466,229	267,965	888,398	2,622,592	–	2,622,592
Unallocated assets						149,746
Total assets						2,772,338
Segment liabilities	1,409,404	42,901	49,125	1,501,430	–	1,501,430
Unallocated liabilities						531,769
Total liabilities						2,033,199
Other segment information						
Capital expenditure allocated to segments	–	1,464	16,700	18,164	–	18,164
Unallocated capital expenditure						–
Total capital expenditure						18,164
Depreciation and amortisation allocated to segments	–	4,982	12,663	17,645	–	17,645
Unallocated depreciation and amortisation						345
Total depreciation and amortisation						17,990
Impairment loss allocated to segments:						
Interests in associates	–	–	190,000	190,000	–	190,000
Goodwill	–	–	7,840	7,840	–	7,840
Oil properties	–	34,332	–	34,332	–	34,332
Trade and bills receivables	82,189	75	10,691	92,955	–	92,955
Prepayments, deposits and other receivables	93,742	–	20,268	114,010	–	114,010
Total impairment loss recognised	175,931	34,407	228,799	439,137	–	439,137

6 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2017

	Continuing operations				Discontinued operations	
	Commodities trading HK$'000	Oil HK$'000	Logistics HK$'000	Total HK$'000	Coke manufacturing HK$'000	Total HK$'000
Segment revenue						
Sales to external customers	3,081,315	4,359	4,632	3,090,306	542,560	3,632,866
Segment profit (loss)	190,043	(96,244)	(39,631)	54,168	(64,804)	(10,636)
Interest income						156
Unallocated income						908,934
Unallocated expense						(31,840)
Finance costs						(64,107)
Profit before tax						802,507
Income tax expense						(122,818)
Profit for the year						679,689
Segment assets	1,099,497	405,780	1,095,941	2,601,218	–	2,601,218
Unallocated assets						123,827
Total assets						2,725,045
Segment liabilities	820,509	15,895	31,270	867,674	–	867,674
Unallocated liabilities						618,334
Total liabilities						1,486,008
Other segment information						
Capital expenditure allocated to segments	–	4,451	18,764	23,215	3,183	26,398
Unallocated capital expenditure						11
Total capital expenditure						26,409
Depreciation and amortisation allocated to segments	–	5,649	5,610	11,259	18,814	30,073
Unallocated depreciation and amortisation						345
Total depreciation and amortisation						30,418
Impairment loss allocated to segments:						
Interests in associates	–	–	–	–	–	–
Goodwill	–	53,139	32,769	85,908	–	85,908
Oil properties	–	38,934	–	38,934	–	38,934
Trade and bills receivables	–	235	–	235	839	1,074
Prepayments, deposits and other receivables	–	–	–	–	47,619	47,619
Total impairment loss recognised	–	92,308	32,769	125,077	48,458	173,535

6 OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
PRC	**11,531,567**	3,628,507
Other countries	**5,376**	4,359
	11,536,943	3,632,866

The revenue information above is based on the location of the customers.

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
PRC	**717,958**	977,607
USA	**201,681**	204,711
Other countries	**216,526**	211,988
	1,136,165	1,394,306

The above non-current assets information is based on the location of the assets and exclude goodwill of HK$102,988,000 (2017: HK$110,828,000).

Information about major customers

Revenue from major customers contributing over 10% of the revenue of the Group is as follows:

	Revenue generated from	2018 HK$'000	2017 HK$'000
Customer A	Coke manufacturing	**–**	409,067
Customer B	Commodities trading	**4,715,703**	N/A
Customer C	Commodities trading	**3,270,411**	N/A

The revenue from the Customer B and Customer C for the prior year ended 31 December 2017 did not contribute over 10% of the total Group's revenue for that year.

7 REVENUE, OTHER INCOME AND GAINS

Revenue

Revenue represents the aggregate of net invoiced value of goods sold, after allowances for returns and trade discounts, and sales of oil, net of royalties, obligations to governments and other mineral interest owners, and income from logistic services rendered, analysed as follows:

	Continuing operations		Discontinued operations		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Revenue from:						
Sales of goods	**11,527,586**	3,085,674	**–**	542,560	**11,527,586**	3,628,234
Rendering of services	**9,357**	4,632	**–**	–	**9,357**	4,632
	11,536,943	3,090,306	**–**	542,560	**11,536,943**	3,632,866

Other income and gains

An analysis of other income and gains is as follows:

	Continuing operations		Discontinued operations		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Bank interest income	**91**	157	**–**	–	**91**	157
Government grants received*	**625**	14,166	**–**	6,234	**625**	20,400
Gain on disposal of property, plant and equipment, net	**–**	226	**–**	–	**–**	226
Gain on change in fair value of an investment property (note 17)	**–**	4,212	**–**	–	**–**	4,212
Reimbursement of depreciation charges	**–**	–	**–**	6,327	**–**	6,327
Reversal of impairment of trade receivables (note 24)	**–**	–	**–**	14,056	**–**	14,056
Sundry income	**1,115**	383	**–**	231	**1,115**	614
Total other income and gains	**1,831**	19,144	**–**	26,848	**1,831**	45,992

* It represents various government grants received for the refund of value-added tax and other taxes (2017: the Group's supply of heat in the PRC and refund of value-added tax and other taxes). There are no unfulfilled conditions or contingencies attached to these grants and refunds.

8 FINANCE COSTS

	Continuing operations		Discontinued operations		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Interest expenses, net of reimbursement on borrowings:						
Bank loans, overdrafts and other loans	**22,202**	4,792	**–**	71,987	**22,202**	76,779
Finance leases	**3**	3	**–**	–	**3**	3
Convertible bonds (note 31)	**26,967**	56,027	**–**	–	**26,967**	56,027
Promissory notes payable (note 32)	**–**	3,285	**–**	–	**–**	3,285
	49,172	64,107	**–**	71,987	**49,172**	136,094

9 LOSS BEFORE TAX

The Group's loss before tax is arrived after charging (crediting):

	Continuing operations		Discontinued operations		Total	
	2018	2017	**2018**	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Cost of inventories sold*	**11,467,221**	2,898,511	**–**	437,409	**11,467,221**	3,335,920
Minimum lease payments under operating leases in respect of land and buildings	**2,129**	971	**–**	–	**2,129**	971
Auditors' remuneration						
Audit services						
– current year	**750**	1,280	**–**	–	**750**	1,280
– under-provision in prior year	**–**	340	**–**	–	**–**	340
	750	1,620	**–**	–	**750**	1,620
Other services	**100**	994	**–**	–	**100**	994
	850	2,614	**–**	–	**850**	2,614
Staff costs (excluding directors' remuneration (note 10))						
Salaries and allowances	**8,807**	8,390	**–**	23,064	**8,807**	31,454
Retirement benefit costs	**500**	400	**–**	–	**500**	400
	9,307	8,790	**–**	23,064	**9,307**	31,854
Depreciation of property, plant and equipment	**14,786**	7,898	**–**	18,127	**14,786**	26,025
Accretion expenses – oil properties	**815**	772	**–**	–	**815**	772
Amortisation of prepaid land lease payments	**1,494**	1,474	**–**	687	**1,494**	2,161
Amortisation of oil properties	**1,710**	2,232	**–**	–	**1,710**	2,232
Loss of disposal on property, plant and equipment	**24**	–	**–**	–	**24**	–
Reversal of write-down of inventories	**–**	–	**–**	(6,886)	**–**	(6,886)
Foreign exchange loss (gain), net	**69**	(47)	**–**	–	**69**	(47)

* Cost of inventories sold includes staff costs and depreciation charges amounted to a total of approximately HK$Nil (2017: HK$18,973,000) and HK$2,820,000 (2017: HK$18,664,000) respectively. These amounts are also included in the respective total amounts disclosed separately above.

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

The emoluments paid or payable to each of the directors and chief executive were as follows:

	2018 **HK$'000**	2017 HK$'000
Fees	**2,550**	925
Other emoluments:		
Salaries, allowances and benefits in kind	**1,680**	2,044
Pension scheme contributions	**33**	36
	4,263	3,005

(a) Executive directors

	Fees HK$'000	**Salaries, allowances and benefits in kind** HK$'000	**Pension scheme contributions** HK$'000	**Total** HK$'000
2018				
Ng Tze For[6]	**–**	**1,200**	**15**	**1,215**
Zhao Cheng Shu	**–**	**480**	**18**	**498**
Ding Zhiyi[5]	**–**	**–**	**–**	**–**
He Fengnian[7]	**–**	**–**	**–**	**–**
Wang Xiusong[8]	**–**	**–**	**–**	**–**
	–	**1,680**	**33**	**1,713**
2017				
Cai Sui Xin[1]	–	–	–	–
Lau Yu[1]	–	–	–	–
Ng Tze For[6]	–	1,542	18	1,560
Zhao Cheng Shu	–	502	18	520
Geng Tao[2]	–	–	–	–
Han Binke[3]	–	–	–	–
Gao Zhenyun[4]	–	–	–	–
Ding Zhiyi[5]	–	–	–	–
He Fengnian[7]	–	–	–	–
	–	2,044	36	2,080

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION (continued)

(a) Executive directors (continued)

1 Mr. Cai Sui Xin and Mr. Lau Yu resigned as executive director of the Company with effect from 1 January 2017.

2 Mr. Geng Tao was appointed as executive director of the Company with effect from 1 January 2017 and resigned with effect from 25 May 2017.

3 Mr. Han Binke was appointed as executive director of the Company with effect from 1 January 2017 and resigned with effect from 7 June 2017.

4 Ms. Gao Zhenyun was appointed as executive director of the Company with effect from 7 June 2017 and resigned with effect from 6 September 2017.

5 Mr. Ding Zhiyi was appointed as executive director of the Company with effect from 1 November 2017 and resigned with effect from 25 January 2019.

6 Mr. Ng Tze For resigned as executive director of the Company with effective from 1 November 2018.

7 Mr. He Fengnian was appointed as executive director of the Company with effective from 1 November 2017 and resigned with effect from 1 November 2018.

8 Mr. Wang Xiusong was appointed as executive director of the Company with effective from 1 November 2018.

(b) Non-executive director

	Fees 2018 HK$'000	2017 HK$'000
Cai Jianjun[9]	**1,800**	300

9 Mr. Cai Jianjun was appointed as a non-executive director of the Company with effect from 1 November 2017 and re-designated as an executive director with effect from 25 January 2019.

Mr. Cai Jianjun was also the chairman of the board and the chairman of executive committee with effect from 25 January 2019.

(c) Independent non-executive directors

	Fees 2018 HK$'000	2017 HK$'000
Choy So Yuk	**150**	150
Leung Yuen Wing	**150**	150
Wu Zhao	**150**	150
Zhu Dengkai[10]	**150**	150
Gao Wen Ping[11]	**–**	–
Liu Wei[12]	**150**	25
	750	625

10 Mr. Zhu Dengkai was appointed as independent non-executive director of the Company with effect from 1 January 2017.

11 Mr. Gao Wen Ping resigned as independent non-executive director of the Company with effect from 1 January 2017.

12 Mr. Liu Wei was appointed as independent non-executive director of the Company with effect from 1 November 2017.

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

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2017: Nil).

11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the year included two (2017: two) directors, details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2017: three) highest paid employees, who are neither a director nor the chief executive of the Company, are as follows:

	2018 **HK$'000**	2017 HK$'000
Salaries, allowances and benefits in kind	**2,857**	2,462
Retirement scheme contributions	**51**	54
	2,908	2,516

The emoluments were within the following bands:

	Number of individuals	
	2018	2017
HK$ nil to HK$1,000,000	**2**	2
HK$ 1,000,001 to HK$1,500,000	**1**	1
	3	3

12 INCOME TAX (CREDIT) EXPENSE

	Continuing operations		**Discontinued operations**		**Total**	
	2018 **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000	**2018** **HK$'000**	2017 HK$'000
Hong Kong profits tax	**–**	–	**–**	–	**–**	–
PRC corporate income tax	**5,806**	57,217	**–**	78,302	**5,806**	135,519
Under provision in prior years	**–**	1,469	**–**	–	**–**	1,469
Current tax charge	**5,806**	58,686	**–**	78,302	**5,806**	136,988
Deferred tax credit (note 35)	**(30,266)**	(14,170)	**–**	–	**(30,266)**	(14,170)
Total income tax (credit) expense for the year	**(24,460)**	44,516	**–**	78,302	**(24,460)**	122,818

No provision for Hong Kong profits tax has been made as the entities in the Group have no assessable profits arising in Hong Kong for both of the years presented. Under the Corporate Income Tax Law of the PRC, the PRC corporate income tax is calculated at the rate of 25% (2017: 25%) on the Group's estimated assessable profits arising in the PRC. Tax on the assessable profits arising in the USA is calculated at the rate of 21% (2017: 34%), however, no such income tax has been provided as the Group did not generate any assessable profits arising in the USA.

12 INCOME TAX (CREDIT) EXPENSE (continued)

A reconciliation of the income tax (credit)/expense applicable to loss before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled to the tax expense at the effective tax rates, and a reconciliation of the applicable rates (i.e. the statutory rates) to the effective tax rates, are as follows:

	Hong Kong		PRC		USA		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
2018								
Loss before tax	**(220,077)**		**(210,920)**		**(41,516)**		**(472,513)**	
Tax at the statutory tax rate	**(36,313)**	**16.5**	**(52,730)**	**25.0**	**(8,718)**	**21.0**	**(97,761)**	**20.7%**
Losses attributable to associates	**472**		**–**		**–**		**472**	
Income not subject to tax	**(1,586)**		**(194)**		**(23,486)**		**(25,266)**	
Expenses not deductible for tax	**36,166**		**58,783**		**1,277**		**96,226**	
Tax losses not recognised	**1,261**		**32**		**576**		**1,869**	
Income tax expense (credit)	**–**		**5,891**		**(30,351)**		**(24,460)**	
2017								
Profit (loss) before tax	817,779		84,789		(100,061)		802,507	
Tax at the statutory tax rate	134,933	16.5	21,197	25.0	(34,020)	34.0	122,110	15.2
Losses attributable to associates	315		–		–		315	
Income not subject to tax	(148,389)		(5,410)		(193)		(153,992)	
Expenses not deductible for tax	13,878		119,247		18,101		151,226	
Utilisation of tax losses not recognised in prior years	(316)		–		–		(316)	
Underprovision in prior year	–		1,469		–		1,469	
Tax losses not recognised	–		396		1,610		2,006	
Income tax expense (credit)	421		136,899		(14,502)		122,818	

13 DISCONTINUED OPERATIONS

During the year ended 31 December 2017, following the disposal of the Company's subsidiaries, Buddies Power and its subsidiary, Shanxi Loundong, as detailed in note 39, the Group discontinued its business of coal processing and production of metallurgical coke and by-products on 29 September 2017. An analysis of the results attributable to the discontinued operations is as follows:

	2018 **HK$'000**	2017 HK$'000
Loss for the year from discontinued operations	**–**	(143,109)
Gain on disposal of subsidiaries (note 39)	**–**	897,065
Net gain for the year from discontinued operations	**–**	753,956

The loss from discontinued operations are analysed as follows:

	Notes	1 January 2017 to 29 September 2017 HK$'000
Revenue	7	542,560
Cost of sales and services		(437,409)
Gross profit		105,151
Other income and gains	7	26,848
Selling and distribution expenses		(51,381)
Administrative expenses		(24,980)
Impairment of property, plant and equipment		–
Impairment of trade receivables		(839)
Impairment of prepayments, deposits and other receivables		(47,619)
Finance costs	8	(71,987)
Loss before tax	9	(64,807)
Income tax expense	12	(78,302)
Loss for the year from discontinued operations		(143,109)
Loss for the year from discontinued operations attributable to:		
Owners of the Company		(135,209)
Non-controlling interests		(7,900)
Loss for the year from discontinued operations		(143,109)
Cash flows from discontinued operations		
Net cash inflows from operating activities		31,067
Net cash outflows from investing activities		(4,417)
Net cash outflows from financing activities		(28,349)
		(1,699)

14 DIVIDENDS

No interim dividend was declared for the current year (2017: Nil).

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2018 (2017: Nil).

15 (LOSS) EARNINGS PER SHARE

The calculation of the basic and diluted (loss) earnings per share attributable to the owners of the Company is as follows:

	Continuing operations		Continuing and discontinued operations	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
(Loss) earnings				
(Loss) earnings for the purpose of basic (loss) earnings per share				
(Loss) profit for the year attributable to owners of the Company	**(453,358)**	(91,336)	**(453,358)**	670,520
Effect of dilutive potential ordinary shares:				
Interest on convertible bonds	**26,967**	56,027	**26,967**	56,027
Earnings for the purpose of diluted earnings per share	**N/A**	N/A	**N/A**	726,547

	2018	2017
	'000	'000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share	**5,703,616**	4,672,638
Effect of dilutive potential ordinary shares:		
Convertible bonds	**746,796**	1,837,429
Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share	**N/A**	6,510,067

Diluted loss from continuing operations per share for the years ended 31 December 2018 and 31 December 2017 is not presented because the Group sustained a loss from continuing operations for each of these years and the impact of conversion of convertible bonds is regarded as anti-dilutive.

Diluted loss from continuing and discontinued operations per share for the year ended 31 December 2017 is not presented because the Group sustained a loss from those operations for that year and the impact of conversion of convertible bonds is regarded as anti-dilutive.

The computation of diluted earnings per share does not assume the exercise of the Company's outstanding share options as the exercise price of those options is higher than the average market price for shares for both years ended 31 December 2018 and 2017.

16 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Plant facilities HK$'000	Office equipment HK$'000	Oil equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018										
At 1 January 2018										
Cost	148,098	–	6,340	34,636	15,416	186	–	851	39,591	245,118
Accumulated depreciation and impairment	(6,815)	–	(2,704)	(10,689)	(1,360)	(177)	–	(502)	–	(22,247)
Carrying amount	141,283	–	3,636	23,947	14,056	9	–	349	39,591	222,871
At 1 January 2018, net of accumulated depreciation and impairment	141,283	–	3,636	23,947	14,056	9	–	349	39,591	222,871
Additions, at cost	–	–	743	–	7	210	–	–	15,740	16,700
Transferred from construction in progress	41,632	–	745	–	12,025	47	–	–	(54,449)	–
Transferred to asset classified as held for sale (note 27)	(12,688)	–	–	–	–	–	–	–	–	(12,688)
Disposal of subsidiaries (note 39)	–	–	–	–	–	–	–	–	–	–
Disposals	–	–	(97)	–	–	–	–	(34)	–	(131)
Depreciation provided for the year	(8,525)	–	(976)	(3,225)	(1,987)	(31)	–	(42)	–	(14,786)
Write-off on disposal	–	–	53	–	–	–	–	23	–	76
Exchange realignment	(7,804)	–	(206)	57	(1,098)	(9)	–	(16)	(633)	(9,709)
At 31 December 2018, net of accumulated depreciation and impairment	153,898	–	3,898	20,779	23,003	226	–	280	249	202,333
At 31 December 2018										
Cost	165,602	–	7,358	34,098	26,205	423	–	783	249	234,718
Accumulated depreciation and impairment	(11,704)	–	(3,460)	(13,319)	(3,202)	(197)	–	(503)	–	(32,385)
Carrying amount	153,898	–	3,898	20,779	23,003	226	–	280	249	202,333

16 PROPERTY, PLANT AND EQUIPMENT (continued)

	Leasehold land and buildings HK$'000	Plant facilities HK$'000	Office equipment HK$'000	Oil equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Plant infrastructure HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017										
At 1 January 2017										
Cost	32,785	1,001,780	34,272	33,259	984,982	15,845	285,441	1,691	223,061	2,613,116
Accumulated depreciation and impairment	(3,181)	(1,001,780)	(29,618)	(7,503)	(924,690)	(11,935)	(251,879)	(1,343)	(85,256)	(2,317,185)
Carrying amount	29,604	–	4,654	25,756	60,292	3,910	33,562	348	137,805	295,931
At 1 January 2017, net of accumulated depreciation and impairment	29,604	–	4,654	25,756	60,292	3,910	33,562	348	137,805	295,931
Additions, at cost	–	–	61	1,376	3,167	28	–	11	12,575	17,218
Transferred from construction in progress	105,539	–	–	–	5,775	–	–	–	(111,314)	–
Disposal of subsidiaries (note 39)	–	–	(653)	–	(43,916)	(2,689)	(32,340)	–	(2,296)	(81,894)
Disposals	–	–	–	–	–	–	–	–	–	–
Depreciation provided for the year	(2,830)	–	(738)	(3,371)	(14,767)	(1,409)	(2,874)	(36)	–	(26,025)
Exchange realignment	8,970	–	312	186	3,505	169	1,652	26	2,821	17,641
At 31 December 2017, net of accumulated depreciation and impairment	141,283	–	3,636	23,947	14,056	9	–	349	39,591	222,871
At 31 December 2017										
Cost	148,098	–	6,340	34,636	15,416	186	–	851	39,591	245,118
Accumulated depreciation and impairment	(6,815)	–	(2,704)	(10,689)	(1,360)	(177)	–	(502)	–	(22,247)
Carrying amount	141,283	–	3,636	23,947	14,056	9	–	349	39,591	222,871

Notes:

(a) The Group's land and buildings is analysed as follows:

	2018 HK$'000	2017 HK$'000
Land and building in Hong Kong under medium-term lease	**–**	13,030
Buildings in the PRC	**152,474**	126,785
Buildings in the USA	**1,424**	1,468
	153,898	141,283

(b) Certain land and buildings at 31 December 2017 with the carrying amount of approximately HK$13,030,000 were pledged to secure general banking facilities granted to the Group (note 30). This leasehold property has been reclassified to assets classified as held for sale (note c below).

(c) During the year, the Company entered into an agreement with a third party for the disposal of the Group's land and building in Hong Kong for a consideration of HK$30,993,160. Accordingly, this leasehold property was reclassified to asset classified as held for sale (note 27).

17 INVESTMENT PROPERTY

	2018 **HK$'000**	2017 HK$'000
Fair value, at 1 January	**–**	16,080
Gain on change in fair value of investment property (note 7)	**–**	4,212
Reclassified to asset classified as held for sale (note 27)	**–**	(20,292)
Fair value, at 31 December	**–**	–

The carrying amount shown above comprises:

	2018 **HK$'000**	2017 HK$'000
Investment property on land in the PRC on long-term lease	**–**	–

The Group's property interests held under operating leases to earn rentals are measured using the fair value model and are classified and accounted for as investment property.

As at 31 December 2017, the investment property is held by the Company's subsidiary, Kingfund Corporation Limited ("Kingfund"). During the year ended 31 December 2017, the Company entered into an agreement with a third party for the disposal of 100% equity interest in Kingfund for a consideration of RMB16,000,000. Accordingly, the investment property was reclassified to asset classified as held for sale.

The fair value of the Group's investment property at 31 December 2017 (included in assets classified as held for sale) has been arrived at on the basis of a valuation carried out on the respective date by Greater China Appraisal Limited.

Greater China Appraisal Limited is an independent firm of professional valuer not connected with the Group and has appropriate qualifications and recent experience in the valuation of properties in the relevant locations. The fair value was determined based on capitalisation of net income method, where the market rentals of all lettable units of the property are assessed by reference to the rentals achieved in the lettable units as well as other lettings of similar properties in the neighbourhood. The capitalisation rate adopted is made by reference to the yield rates observed by the valuer for similar properties in the locality and adjusted based on the valuer's knowledge of the factors specific to the respective properties.

There has been no change from the valuation technique used in the prior year. In estimating the fair value of the property, the highest and best use of the property is their current use.

17 INVESTMENT PROPERTY (continued)

Details of the Group's investment property (included in assets classified as held for sale) and information about the fair value hierarchy are as follows:

	Fair value measurement using			
	Quoted prices in active markets (Level 1) HK$'000	Significant observable inputs (Level 2) HK$'000	Significant unobservable inputs (Level 3) HK$'000	Total HK$'000
Recurring fair value measurement for investment property:				
31 December 2018	–	–	–	–
31 December 2017	–	–	20,292	20,292

Reconciliation of fair value measurements categorised within Level 3 of the fair value hierarchy:

	Residential property	
	2018 HK$'000	2017 HK$'000
Carrying amount at 1 January	**20,292**	16,080
Gain on change in fair value recognised in profit or loss	**–**	4,212
Disposal during the year	**(20,292)**	–
Carrying amount at 31 December	**–**	20,292

Below is a summary of the valuation techniques used and key inputs to the valuation of investment property as at 31 December 2017:

Description	Fair value at 31 December 2017	Valuation techniques	Unobservable inputs	Range of unobservable inputs	Relationship of unobservable inputs to fair value
Residential property	HK$20,292,000 (equivalent to RMB16,900,000)	Income capitalisation method	(i) Annual rental	RMB100,000	The higher the monthly rental, the higher the fair value
			(ii) Reversionary yield per annum	3.5%	The higher the reversionary yield, the lower the fair value
			(iii) Market unit sale rate	RMB70,000/sq.m.	The higher the market rate, the higher the fair value

18 PREPAID LAND LEASE PAYMENTS

	2018 HK$'000	2017 HK$'000
Cost:		
At 1 January	**58,938**	86,362
Additions	**–**	6,115
Elimination on disposal of subsidiaries	**–**	(39,370)
Exchange realignment	**(3,058)**	5,831
At 31 December	**55,880**	58,938
Accumulated amortisation:		
At 1 January	**2,266**	8,073
Charge for the year	**1,494**	2,161
Elimination on disposal of subsidiaries	**–**	(8,470)
Exchange realignment	**(173)**	502
At 31 December	**3,587**	2,266
Carrying amount	**52,293**	56,672
Analysed for reporting purposes as:		
Current assets	**1,482**	1,282
Non-current assets	**50,811**	55,390
	52,293	56,672

The prepaid land lease payments, which represents land use rights of certain land in the PRC, are amortised over the periods of 40 years.

19 INTERESTS IN ASSOCIATES

	2018 HK$'000	2017 HK$'000
Cost of investments in unlisted associates	**1,242,560**	1,265,807
Share of post-acquisition losses	**(2,858)**	(1,909)
Share of reserve of an associate	**168**	785
Impairment loss recognised	**(502,024)**	(327,934)
	737,846	936,749

Included in cost of investments in unlisted associates are goodwill arising on acquisition amounted to HK$832,433,000 (2017: HK$832,433,000).

19 INTERESTS IN ASSOCIATES (continued)

Particulars of the principal associates of the Group are as follows:

Name	Place of establishment/ registration and operations	Paid up capital	Equity interest attributable to the Group 2018	2017	Principal activities
RockEast Energy Corporation ("RockEast")	Canada	CAD30,364,992	**30%**	30%	Exploration and production of oil
Inner Mongolia Eurasian Continent Bridge Logistics Limited Liability Company ^ ("Mongolia Logistics")	Inner Mongolia Province, the PRC	RMB5,000,000	**39%**	39%	Provision of logistics and warehousing services
Wulanchabu Integrated Logistics Park Company Limited ("Wulanchabu")	Inner Mongolia Province, the PRC	RMB50,000,000	**40%**	40%	Provision of logistics and warehousing services
Qian'an ENN Energy Limited ^ @	Hebei Province, the PRC	RMB64,500,000	**–**	21%	Investment in natural gas manufacturing

^ The English names of these entities are directly translated from their Chinese names as no English names have been registered.

@ These entities were disposed of by the Group during the year ended 31 December 2018.

RockEast, Mongolia Logistics and Wulanchabu, which are considered as material associates of the Group, are accounted for using the equity method.

Movements of the interests in associates are as follows:

	2018 HK$'000	2017 HK$'000
Balance at beginning of the year	**936,749**	938,367
Elimination on disposal of subsidiaries (note 39)	**–**	(2,230)
Share of post-acquisition losses for the year	**(2,858)**	(1,909)
Share of reserve of an associate	**168**	785
Impairment loss recognised (note a)	**(190,000)**	–
Impairment loss reversed (note b)	**15,910**	–
Disposal	**(21,756)**	–
Exchange realignment	**(367)**	1,736
Balance at end of the year	**737,846**	936,749

Notes:

(a) During the year, management of the Group conducted a review of the profitability of the business undertaken by the associates, Mongolia Logistics and Wulanchabu, and is of the view that it is appropriate to make impairment loss on investments in Mongolia Logistics and Wulanchabu amounted to HK$35,000,000 and HK$155,000,000 respectively, which are based on their estimated recoverable amount on value in use calculation by reference to their business valuation conducted by an independent external valuer. The impairment loss, which was caused by the downward revision of the future profitability of the business undertaken by Mongolia Logistics and Wulanchabu, impacted by the potential slowdown of railway transportation industry, was recognised in profit or loss in respect of the year (2017:Nil).

(b) Management of the Group conducted impairment assessment of the Group's investment in RockEast by reference to oil reserves held by RockEast and is of the view that the recoverable amount of oil reserves, based on their estimated fair value less cost of disposal, is increased significantly in line with the expected increase in volume of the oil reserves, accordingly, the directors of the Company consider it appropriate to recognise a reversal of the impairment loss amounted to HK$15,910,000 previously made against the investment in RockEast.

19 INTERESTS IN ASSOCIATES (continued)

The following table illustrates the summarised financial information is respect of RockEast, Mongolia Logistics and Wulanchabu and reconciled to the carrying amount in the consolidated financial statements.

	RockEast	
	2018	2017
	HK$'000	HK$'000
Non-current assets	**576,680**	498,738
Current assets	**3,343**	30,678
Current liabilities	**(37,906)**	(25,037)
Non-current liabilities	**(140,599)**	(108,419)
Net assets	**401,518**	395,960
Revenue	**78,101**	81,305
Profit before tax	**6,938**	18,232
Income tax expense	**(1,941)**	(5,512)
Profit for the year	**4,997**	12,720
Other comprehensive income	**–**	–
Total comprehensive income	**4,997**	12,720
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**30%**	30%
Group's share of net assets of the associates, excluding goodwill	**120,455**	118,788
Goodwill on acquisition (less accumulated impairment)	**96,071**	80,161
Carrying amount of the investment	**216,526**	198,949

19 INTERESTS IN ASSOCIATES (continued)

	Mongolia Logistics 2018 HK$'000	2017 HK$'000
Non-current assets	**286,811**	289,712
Current assets	**19,996**	26,189
Current liabilities	**(290,793)**	(288,713)
Non-current liabilities	**(360)**	(360)
Net assets	**15,654**	26,828
Revenue	**13,425**	1,376
Loss before tax	**(11,174)**	(11,831)
Income tax	**–**	–
Loss for the year	**(11,174)**	(11,831)
Other comprehensive income	**–**	–
Total comprehensive income	**(11,174)**	(11,831)
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**39%**	39%
Group's share of net assets of the associates, excluding goodwill	**6,105**	10,463
Goodwill on acquisition (less accumulated impairment)	**97,714**	132,714
Carrying amount of the investment	**103,819**	143,177

19 INTERESTS IN ASSOCIATES (continued)

	Wulanchabu 2018 HK$'000	2017 HK$'000
Non-current assets	**674,790**	673,994
Current assets	**72,624**	72,727
Current liabilities	**(45,222)**	(44,532)
Non-current liabilities	**–**	–
Net assets	**702,192**	702,189
Revenue	**–**	–
Profit before tax	**–**	–
Income tax	**–**	–
Profit for the year	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**40%**	40%
Group's share of net assets of the associates, excluding goodwill	**280,877**	280,876
Goodwill on acquisition (less accumulated impairment)	**136,624**	291,624
Carrying amount of the investment	**417,501**	572,500

The following table illustrates the aggregate financial information of the Group's associates that are not individually material:

	2018 HK$'000	2017 HK$'000
Share of the associates' loss for the year	**–**	(1,111)
Share of associates' other comprehensive income	**–**	–
Aggregate carrying amount of the Group's investments in the associates	**–**	22,123

20 AVAILABLE-FOR-SALE INVESTMENTS

	2018 HK$'000	2017 HK$'000
Unlisted investments		
At cost	–	–
Less: impairment loss recognised	–	–
	–	–
Movements during the year are as follows:		
At 1 January	–	7,063
Elimination on disposal of subsidiaries (note 39)	–	(7,424)
Exchange realignment	–	361
At 31 December	–	–

21 GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January		
Cost	282,375	1,183,596
Accumulated impairment	(171,547)	(986,860)
Carrying amount	110,828	196,736
Carrying amount at 1 January, net of accumulated impairment	110,828	196,736
Impairment loss recognised for the year	(7,840)	(85,908)
Carrying amount at 31 December	102,988	110,828
At 31 December		
Cost	282,375	282,375
Accumulated impairment	(179,387)	(171,547)
Carrying amount	102,988	110,828

21 GOODWILL (continued)

An analysis of the goodwill attributable to the relevant cash-generating units ("CGUs") is as follows:

	Oil CGU HK$'000	Logistics CGU HK$'000	Total HK$'000
Carrying amount at 1 January 2017	53,139	143,597	196,736
Impairment loss recognised for the year	(53,139)	(32,769)	(85,908)
Carrying amount at 31 December 2017 and 1 January 2018	–	**110,828**	**110,828**
Impairment loss recognised for the year	–	**(7,840)**	**(7,840)**
Carrying amount at 31 December 2018	–	**102,988**	**102,988**

Oil CGU

The goodwill arose from the acquisition of Earning Power Inc. and its subsidiaries ("EPI Group") during the year ended 31 December 2014.

Impairment test of goodwill

The goodwill arose from the business combination in prior years and was fully impaired during the year ended 31 December 2017.

The recoverable amounts of the Oil CGU during the year ended 31 December 2017 is determined based on a value in use calculation by reference to the valuation conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using the income approach methodology. The discount rate applied to the cash flow projections is 19.45% and the growth rate used to extrapolate the cash flows of the oil operations beyond the five-year period is 2.3%. Based on the assessment, the directors considered it appropriate to recognise impairment of goodwill relating to oil operations amounted to HK$53,139,000.

Logistics CGU

The goodwill of HK$110,234,000 and HK$50,959,000 arose from the acquisition of Tianjin Ruiqi Enterprise Management Company and its subsidiary ("Tianjin Ruiqi Group") and Hai Hui during the years ended 31 December 2016 and 31 December 2015 respectively.

Impairment test of goodwill

The directors of the Company conducted assessments of the recoverable amounts of the Logistics CGU with reference to the valuations conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using the income approach methodology. The discount rates applied to the cash flow projections of Tianjin Ruiqi Group and Hai Hui are 22.70% (2017: 28.51%) and 25.18% (2017: 20%) respectively and the growth rate used to extrapolate the cash flows of Tianjin Ruiqi Group and Hai Hui beyond the five-year period are 3% (2017: 3%) and 3% (2017: 3%) respectively. Based on the assessments, the directors considered it appropriate to recognise impairment of goodwill relating to logistics operations amounted to HK$7,840,000 (2017: HK$32,769,000).

22 OIL PROPERTIES

	2018 HK$'000	2017 HK$'000
At 1 January		
Cost	**313,750**	308,401
Accumulated amortisation and impairment	**(134,454)**	(92,599)
Carrying amount	**179,296**	215,802
At 1 January, cost less accumulated amortisation	**179,296**	215,802
Additions, at cost	**1,464**	3,076
Amortisation for the year	**(1,710)**	(2,232)
Impairment loss recognised for the year	**(34,332)**	(38,934)
Exchange realignment	**457**	1,584
At 31 December, cost less accumulated amortisation and impairment	**145,175**	179,296
At 31 December		
Cost	**315,959**	313,750
Accumulated amortisation and impairment	**(170,784)**	(134,454)
Carrying amount	**145,175**	179,296

The oil properties represent proven and probable oil reserves of successful exploratory wells in the States of Illinois and Indiana in the USA held by the EPI Group. The oil properties are amortised using the unit-of-production method based on the total estimated proven and probable reserves.

The recoverable amount of the oil properties is determined based on a value in use calculation by reference to the valuation conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using incoming approach methodology. The discount rate applied to the cash flow projections is 15.64% (2017: 19.45%) and the growth rate used to extrapolate the cash flows of the oil properties beyond the five-year period is 2.1% (2017: 2.3%). Based on the assessments, the directors of the Company consider it appropriate to recognise an impairment loss of approximately HK$34,332,000 for the current year (2017: HK$38,934,000).

23 INVENTORIES

	2018 HK$'000	2017 HK$'000
Finished goods	**567**	1,409
	567	1,409

24 TRADE AND BILLS RECEIVABLES

	2018 HK$'000	2017 HK$'000
Trade receivables	**714,180**	280,578
Less: Impairment loss recognised	**(101,590)**	(72,421)
	612,590	208,157

The Group's trading terms with its customers are mainly on credit, except for new customers, where payment in advance is normally required. The credit period granted by the Group to its customers generally ranged from one to three months. Overdue balances are reviewed regularly by senior management.

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

	2018 HK$'000	2017 HK$'000
Not more than 30 days	**612,477**	191,813
31-60 days	**20**	160
61-90 days	**286**	43
91-365 days	**253**	260
Over 1 year	**101,144**	88,302
	714,180	280,578

24 TRADE AND BILLS RECEIVABLES (continued)

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

	2018 HK$'000	2017 HK$'000
At 1 January	**72,421**	973,076
Impairment losses recognised	**92,955**	1,074
Reversal of impairment losses (note 7)	**–**	(14,056)
Write off during the year	**(62,553)**	–
Eliminated on disposal of subsidiaries	**–**	(936,432)
Exchange realignment	**(1,233)**	48,759
At 31 December	**101,590**	72,421

The Group seeks to maintain strict control over its outstanding receivables to minimize credit risk. Overdue balances are reviewed regularly by management. In view of the management, impairment loss on trade receivables that have been past due has been adequately made in the consolidated financial statements.

The Group does not hold any collateral or other credit enhancements over these balances.

The trade receivables that are not considered to be impaired is analysed as follows:

	2018 HK$'000	2017 HK$'000
Not past due	**612,319**	191,730
Past due:		
Less than 1 month	**–**	57
1 to 3 months	**40**	43
3 to 12 months	**231**	–
Over one year	**–**	16,327
	612,590	208,157

Receivables that were neither overdue nor impaired relate to a number of customers for whom there were no recent history of default.

Receivables that were past due less than one year have a good track record with the Group. Based on past experience, the directors of the Company are of the opinion that no significant provision for impairment is necessary in respect of these balances as there has not been a significant change in credit quality and/or substantially all of these balances are still considered recoverable.

As 31 December 2018 and 2017, trade and bills receivables to the extent of HK$nil (2017: 82,189,000) were denominated in the currencies other than the functional currencies of the relevant group entities.

25 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2018 HK$'000	2017 HK$'000
Deposits for purchases of goods (note (a))	**821,799**	865,981
Prepayments and other deposits	**170**	2,861
Other receivables (note (b))	**33,137**	101,266
	855,106	970,108

Notes:

(a) The deposits at 31 December 2018 amounted to HK$821,799,000 (2017: HK$865,981,000) represent deposits paid for purchases of commodities for trading purchases, less impairment loss recognised. In view of the uncertainty of financial position of certain suppliers, management considered it appropriate to recognise impairment losses amounted to HK$93,742,000 (2017: nil) on such deposits made to those suppliers which was charged to profit or loss in respect of the current year.

(b) Included in other receivables are receivables from certain third parties, less impairment loss recognised, amounted to HK$23,594,000 (2017: HK$96,998,000) which is unsecured, interest free and repayable on demand. In view of the uncertainty of financial position of certain debtors, management considered it appropriate to recognise impairment losses amounted to HK$20,268,000 (2017: HK$75,000) on such receivables from those third parties which was charged to profit or loss in respect of the current year.

(c) As at 31 December 2018 and 2017, deposits and other receivables to the extent of HK$nil (2017: HK$7,483,000) were denominated in currencies other than the functional currencies of the relevant group entities.

26 CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**43,579**	18,663
Cash and cash equivalents	**43,579**	18,663

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$42,602,000 (2017: HK$14,366,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group was permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

As 31 December 2018, the Group's cash and cash equivalents to the extent of HK$278,000 (2017: HK$911,000) were denominated in currencies other than the functional currencies of the relevant group entities.

27 ASSETS/LIABILITIES CLASSIFIED AS HELD FOR SALE

	2018 HK$'000	2017 HK$'000
Asset classified as held for sale:		
Land and buildings	**12,688**	–
Investment property (note 17)	**–**	20,292
	12,688	20,292
Liabilities directly associated with assets classified as held for sale		
Deferred tax liabilities (note 35)	**–**	1,801
Net assets held for sale	**12,688**	18,491

As referred to note 16, during the current year, the Company entered into an agreement with a third party for disposal of the Group's land and buildings in Hong Kong for a consideration of HK$30,993,160. Accordingly, this leasehold property has been reclassified from property, plant and equipment to assets classified as held for sale. No deposit for the disposal of property was received by the Group up to the end of the reporting period. Completion of the disposal of the property took place in January 2019.

As referred to note 17, the Company entered into an agreement during the year ended 31 December 2017 for the disposal of 100% equity interest in Kingfund, a subsidiary of the Company, which is principally engaged in property investment. Deposits for the disposal amounted to RMB11,500,000 (equivalent to HK$13,808,000) were received by the Group up to 31 December 2017 and were included in other payables and accruals (note 29). Assets and liabilities of Kingfund have been reclassified to assets classified as held for sale and liabilities directly associated with asset classified as held for sale.

Details of the fair value measurement of the investment property at 31 December 2017 are set out in note 17.

Completion of disposal of the subsidiary took place in April 2018.

28 TRADE PAYABLES

	2018 HK$'000	2017 HK$'000
Trade payables	**708,494**	28,417

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

	2018 HK$'000	2017 HK$'000
Not more than 30 days	**655,637**	2,736
31-60 days	**46**	11
61-90 days	**138**	–
91-365 days	**28,315**	–
Over one year	**24,358**	25,670
	708,494	28,417

The trade payables are non interest-bearing and are normally settled on 90-day terms.

29 OTHER PAYABLES AND ACCRUALS

	2018 HK$'000	2017 HK$'000
Customer advances	**742,973**	805,713
Other payables	**48,158**	39,256
Value-added tax and on other taxes payables	**2,132**	1,811
Accrued interest on bank and other borrowings	**3,552**	–
Accrued interest on convertible bonds	**2,695**	22,175
Deposit received from disposal of a subsidiary (note 27)	**–**	13,808
Other accrued charges	**9,842**	5,811
	809,352	888,574

Other payables are non interest-bearing and have an average term of three months.

As 31 December 2018 and 2017, other payables and accruals were substantially denominated in the functional currencies of the relevant group entities.

30 BANK AND OTHER BORROWINGS

	2018 HK$'000	2017 HK$'000
Secured bank loans and overdrafts repayable within one year or on demand	**43,182**	120,991
Unsecured other borrowings repayable within one year	**371,230**	23,560
Total borrowings	**414,412**	144,551
Analysed for reporting purposes as:		
Current liabilities	**414,412**	144,551

Included in secured bank loans and overdrafts are bank overdrafts amounted to HK$14,722,000 (2017: HK$12,967,000).

Included in unsecured other borrowings are borrowings amounted to HK$336,000,000 (2017: Nil), comprising the principal amount of the convertible bonds of HK$300,000,000 (note 31) and accrued interest of HK$36,000,000 respectively, reclassified upon the expiration of the maturity period of the bonds. Subsequent to the end of the reporting period, the holder of the convertible bonds and the Company entered into an agreement, under which the bond holder has agreed for the repayment of the convertible bonds with accrued interests on or before 3 June 2019. Interest for the extended period from 3 December 2018 to 3 June 2019 are charged on these borrowings at the interest rate of 6% per annum.

The Group's bank and other borrowings (except for that aforementioned), carried interests ranged from 3% to 10% and are secured by:

(a) the Group's land and building (included in assets classified as held for sale) with the carrying amount of HK$12,688,000 at the end of the reporting period (note 27) (2017: HK$13,030,000 (note 16));

(b) corporate guarantees from the Company and independent third parties.

As 31 December 2018 and 2017, bank and other borrowings were substantially denominated in the functional currencies of the relevant group entities.

31 CONVERTIBLE BONDS

CB I

On 19 August 2015, the Company issued to China Huarong Investment Management Limited, a subsidiary of China Huarong International Holdings Limited, a three-year convertible bonds with an aggregate principal amounts of HK$400,000,000 (the "CB I") for a consideration of HK$400,000,000. The CB I carries interest at 6% per annum, which is payable annually in arrears on 19 August. The maturity date of the CB I is 18 August 2018, being the third anniversary of the date of issue of the CB I (the "Maturity Date I"). The CB I is convertible into ordinary shares of the Company during the period from the date of issue of CB I to the day immediately prior to the Maturity Date I at an initial conversion price of HK$0.331 per share, subject to adjustments, which was adjusted to HK$0.290 per share as a result of the issue of CBII (as defined below) and further adjusted to HK$0.287 per share following placing of new shares in November 2016 (the "Placing"). Unless previously redeemed, converted, purchased and cancelled, the Company shall redeem the CB I at 100% of the principal amount on the Maturity Date I.

The CB I is secured by: (i) charges over 319,100,000 shares of the Company held by General Nice Resources (Hong Kong) Limited, of which Mr. Cai Sui Xin is a shareholder and director, and (ii) personal guarantee provided by Mr. Cai Sui Xin.

On 28 September 2017, the CB I with an aggregate principal amount of HK$400,000,000 were converted into 1,393,728,222 new ordinary shares of the Company at the conversion price of HK$0.287 per share.

CB II

On 2 December 2015, the Company issued to Xinya Global Limited, an strategic investor of the Company, a three-year convertible bonds with an aggregate principal amounts of HK$300,000,000 (the "CB II") for a consideration of HK$300,000,000. The CB II carries interest at 6% per annum, which is payable annually in arrears on 3 December. The maturity date of the CB II is the third anniversary of the date of issue of the CB II (the "Maturity Date II"). The CB II is convertible into shares at the conversion price of HK$0.376 per share, subject to adjustments, which was adjusted to HK$0.372 per share following the Placing. Unless previously redeemed, converted, purchased or cancelled, the Company shall redeem the outstanding CB II at 100% of the principal amount on the Maturity Date II. The CB II was not redeemed or converted, and remained outstanding at the Maturity Date II of 3 December 2018, accordingly the convertible bonds were reclassified to bank and other borrowings.

The CB I and CB II contained the liability component and the equity component.

31 CONVERTIBLE BONDS (continued)

Movements of the liability components of the CB I and CB II are as follows:

	CB I HK$'000	CB II HK$'000	Total HK$'000
Carrying amount at 1 January 2017	379,430	278,517	657,947
Conversion during the year	(388,602)	–	(388,602)
Interest expense (note 8)	26,991	29,036	56,027
Interest paid during the year	(15,123)	–	(15,123)
Accrued interest included in other payables and accruals in current liabilities	(2,696)	(18,000)	(20,696)
Carrying amount at 31 December 2017	**–**	**289,553**	**289,553**
Interest expense (note 8)	**–**	**26,967**	**26,967**
Accrued interest included in other payables and accruals in current liabilities	**–**	**(16,520)**	**(16,520)**
Reclassified to bank and other borrowings	**–**	**(300,000)**	**(300,000)**
Carrying amount at 31 December 2018	**–**	**–**	**–**

	2018 **HK$'000**	2017 HK$'000
Analysed for reporting purposes as:		
Current liabilities	**–**	289,553
Non-current liabilities	**–**	–
	–	289,553

The liability components of the convertible bonds are carried at amortised cost. The effective interest rate adopted is 10.35% per annum (2017: 9.58% – 10.35% per annum).

At the end of the reporting period, no convertible bonds (2017: convertible bonds with the aggregate principal amounts of HK$300,000,000) remained outstanding.

32 PROMISSORY NOTES PAYABLE

	2018 HK$'000	2017 HK$'000
At 1 January	**52,000**	48,715
Interest expenses charged (note 8)	**–**	3,285
At 31 December	**52,000**	52,000
Analysed for reporting purposes as:		
Current liabilities	**52,000**	52,000

On 18 December 2014, the Company issued to an independent third party, Wise Perfection Limited ("Wise Perfection"), an unsecured promissory note with the principal amount of HK$60,000,000 ("PN 1") as partial consideration for the acquisition of 100% equity interest in Earning Power Inc. PN 1 bears no interest and is repayable in one lump sum on 18 December 2017 (the "Maturity Date"). The Company may at its sole discretion elect to repay all or any part of the amount outstanding under PN 1 at any time prior to the Maturity Date. PN 1 is not transferable or assignable to any third party unless with the consent of the Company. At the issue date, the fair value of PN 1 was estimated to be approximately HK$49,168,000, using an effective interest rate of 6.86% per annum.

No repayment of the PN 1 was made by the Company from the date of issue up to the Maturity Date and 31 December 2018 and the PN 1 with the principal amount of HK$52,000,000 (2017: HK$52,000,000) remained outstanding at the end of the reporting period and at the date of approval of these consolidated financial statements.

33 OBLIGATIONS UNDER FINANCE LEASES

The Group leased motor vehicles under finance leases. The term were 5 years. Interest rates on obligations under the finance leases were fixed at the contract rates of less than 2% per annum. The Group had options to purchase the motor vehicles for a nominal amount at the end of the lease term. No arrangements have been entered into for contingent rental payments.

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**89**	88	**86**	85
In the second to fifth years, inclusive	**199**	288	**197**	283
	288	376	**283**	368
Less: Future finance charges	**(5)**	(8)	**–**	–
Present value of lease obligations	**283**	368	**283**	368
Less: Amount due for settlement within 12 months			**(86)**	(85)
Amount due for settlement after 12 months			**197**	283

34 ASSETS RETIREMENT OBLIGATIONS

	2018	2017
	HK$'000	HK$'000
At 1 January	**11,393**	12,063
Utilised for the year	**(181)**	(1,529)
Accretion expenses recognised	**815**	772
Exchange realignment	**26**	87
At 31 December	**12,053**	11,393

The obligations represent the present value of the estimated future expenditure, including abandonment costs, in relation to the oil properties of the Group upon their retirements. The assets retirement obligations are estimated at the end of each of the reporting period, the discount rate applied to assets retirement obligations is 5.25% (2017: 5.25%).

35 DEFERRED TAX LIABILITIES

Movements of the deferred tax liabilities during the year are as follows:

	Fair value adjustments arising from business combination HK$'000	Capitalised interest HK$'000	Book value in excess of tax base of prepaid land lease payments HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Others HK$'000	Total HK$'000
At 1 January 2017	70,656	2,687	3,411	6,835	5,020	88,609
Eliminated on disposal of subsidiaries (note 39)	–	(2,825)	(3,585)	–	(5,277)	(11,687)
Deferred tax credited to profit or loss (note 12)	(14,441)	–	–	271	–	(14,170)
Reclassified to liabilities directly associated with assets classified as held for sale (note 27)	–	–	–	(1,801)	–	(1,801)
Exchange realignment	772	138	174	40	257	1,381
At 31 December 2017 and 1 January 2018	**56,987**	**–**	**–**	**5,345**	**–**	**62,332**
Eliminated on disposal of subsidiaries (note 39)	**–**	**–**	**–**	**–**	**–**	**–**
Deferred tax credited to profit or loss (note 12)	**(27,481)**	**–**	**–**	**(2,785)**	**–**	**(30,266)**
Exchange realignment	**(89)**	**–**	**–**	**100**	**–**	**11**
At 31 December 2018	**29,417**	**–**	**–**	**2,660**	**–**	**32,077**

The Group has unused tax losses arising in Hong Kong of approximately HK$31,843 (2017: HK$24,200,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008.

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in the PRC as there were no unremitted earnings in these subsidiaries (2017: Nil).

36 SHARE CAPITAL

	2018 HK$'000	2017 HK$'000
Authorised:		
200,000,000,000 ordinary shares of HK$0.01 each	**2,000,000**	2,000,000
Issued and fully paid:		
5,703,615,592 (2017: 5,703,615,592) ordinary shares of HK$0.01 each	**57,036**	57,036

The movements in the issued share capital and share premium of the Company were as follows:

	Number of shares '000	Issued capital HK$'000	Share premium account HK$'000	Total HK$'000
At 1 January 2017	4,309,888	43,099	1,082,509	1,125,608
New shares issued on conversion of convertible bonds (note 31)	1,393,728	13,937	409,588	423,525
At 31 December 2017 and 31 December 2018	**5,703,616**	**57,036**	**1,492,097**	**1,549,133**

37 SHARE OPTION SCHEME

The Company's share option scheme adopted on 25 June 2007 (The "Old Scheme") was lapsed on 25 June 2017. Subsequent to the lapse of the Old Scheme, the Company adopted a new share option scheme on 30 June 2017 (the "New Scheme") for the purpose of providing incentives to Participants (as defined in the New Scheme) to contribute to the Group and/or to enable the Group to recruit high-calibre employees and attract resources that are valuable to the Group and the shareholders of the Company as a whole. Participants include the directors and any employees of the Group, supplier of goods or services of the Group, any person provides professional advice, consultancy service or technical support to the Group and any shareholders of any member of the Group. Unless otherwise terminated or amended, the New Scheme will remain in force for 10 years from the adoption date on 30 June 2017 ("Adoption Date"). The principal terms of the New Scheme are summarised as follows:

(a) The maximum number of shares in respect of which share options may be granted under the New Scheme must not exceed 10% of the number of shares of the Company in issue as at the Adoption Date and the maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the New Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the New Scheme is 430,988,737 shares, representing 10% of the total number of shares in issue as at the Adoption Date and representing approximately 7.56% of the issued share capital of the Company as at 31 December 2018 and the date of this annual report. The maximum number of shares to be issued under the share options granted to each Participant in the New Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

(b) Share options granted to a director, chief executive or substantial shareholder of the Company, or to any of their associates are subject to approval in advance by the independent non-executive directors. In addition, any share options granted to a substantial shareholder or an independent non-executive director of the Company, or to any of their associate, in excess of 0.1% of the number of shares of the Company in issue at any time or with an aggregate value (based on the closing price of the Company's shares at the date of grant) in excess of HK$5 million, within any 12-month period, are subject to shareholders' approval in advance in a general meeting.

(c) The offer of a grant of share options may be accepted within 21 days from the date of offer, upon payment of a consideration of HK$1.00 in total by the grantee. The exercise period of the share options granted is determinable by the Board which in any event shall not be longer than ten years commencing on the date of the offer letter and expiring on the last day of such ten year period subject to the provisions for early termination as contained in the New Scheme.

(d) The exercise price of the share options is determinable by the directors, but shall not be less than the highest of (i) the closing price of the Company's shares stated in the Stock Exchange's daily quotation sheets on the date of offer of such share option; and (ii) the average closing price of the Company's shares stated in the Stock Exchange's daily quotations sheets for the five trading days immediately preceding the date of offer of such share option.

No options have been granted, exercised, forfeited or lapsed under the New Scheme since its adoption.

37 SHARE OPTION SCHEME (continued)

No options have been granted, exercised or forfeited under the Old Scheme during the years ended 31 December 2018 and 31 December 2017. Movements in the share options of the Company under the Old Scheme are as follows:

	Number of shares under options granted				
Category of participants	At 1 January 2017	Lapsed during the year ended 31 December 2017	At 31 December 2017 and 2018	Exercise period of the outstanding share options	Exercise price per share HK$
Director	3,942,457	(3,942,457)	–	From 9 January 2010 to 24 June 2017	0.6517
Other employees	271,894	(271,894)	–	From 9 January 2010 to 24 June 2017	0.6517
Total	4,214,351	(4,214,351)	–		

38 RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 64.

(a) Share option reserve

	2018 HK$'000	2017 HK$'000
Share option reserve attributable to		
– the Company	–	–
– associates	3,672	3,504
	3,672	3,504

Details of the share options granted by the Company are set out in note 37.

38 RESERVES (continued)

(b) Capital reserve

Capital reserve is analysed as follows:

	2018 HK$'000	2017 HK$'000
Statutory surplus reserve (note i)	**178,168**	15,436
Waiver of increased consideration for acquisition of a subsidiary (note ii)	**–**	160,670
	178,168	176,106

Movements during the year

	2018 HK$'000	2017 HK$'000
Balance at 1 January	**176,106**	688,569
Transferred to retained profits upon disposal of subsidiaries (note iii)	**–**	(527,867)
Transferred surplus and reserve	**2,062**	15,404
Balance at 31 December	**178,168**	176,106

(i) Statutory surplus reserve ("SSR")

Pursuant to the relevant PRC laws and regulations for Sino-foreign joint venture enterprises, the profits of the Group's PRC subsidiary are available for distribution, in the form of cash dividends to each of the joint venture partners of the joint venture: (1) satisfies all tax liabilities; (2) provides for losses in previous years; and (3) makes appropriate to the three statutory reserves. These appropriations include the individual entity's reserve fund, expansion fund and funds for staff bonuses and welfare benefits.

All Sino-foreign enterprises are generally required to appropriate not less than 10% of their net profit after tax to the SSR as determined in the PRC subsidiary's statutory audited accounts prepared in accordance with Chinese Accounting Standards, until the balance of the fund reaches 50% of the registered capital. Appropriations of the expansion fund and funds for staff bonuses and welfare benefits are determined at the sole discretion of the board of directors.

Subject to certain restrictions set out in the Company law of the PRC, part of the SSR may be converted to increase paid-up capital, provided that the remaining balance after the capitalisation is not less than 25% of the registered capital.

38 RESERVES (continued)

(b) Capital reserve (continued)

(ii) Waiver of the increased consideration for the acquisition of 50.1% equity interest in Shanxi Loudong at 31 December 2016

Pursuant to the sale and purchase agreement dated 8 December 2007, as supplemented by supplemental agreements, entered into between General Nice Resources (Hong Kong) Limited ("GNR") and Buddies Power Enterprises Limited ("Buddies Power"), a former subsidiary of the Company, the consideration for the acquisition by Buddies Power of 50.1% equity interest in Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Shanxi Loudong") shall be increased by HK$280 million in the event that the aggregate audited attributable net profits of 50.1% equity interest in Shanxi Loudong for the financial years ended 31 December 2008 and 2009 exceeds HK$230 million. The targeted profits for the above-mentioned financial years were made. The increased consideration was included in the consolidated financial statements for the year ended 31 December 2009 as goodwill and amount due to GNR of HK$280 million.

On 26 August 2010, GNR, Buddies Power and the Company entered into a deed of waiver, pursuant to which, GNR agreed to waive the liability due from the Group under the agreements. Accordingly, the Group had classified the amount due to GNR of HK$280 million as capital reserve with no adjustment to the goodwill previously recorded.

(iii) During the year, capital reserve amounted to HK$nil (2017: HK$527,867,000) was released and transferred to accumulated losses following the completion of disposal of the relevant subsidiary, Shanxi Loudong (note 39).

39 DISPOSAL OF SUBSIDIARIES

Disposal took place during the year ended 31 December 2018

During the year ended 31 December 2017, the Company entered into an agreement with a third party for the disposal of 100% equity interest in a subsidiary, Kingfund Corporation Limited ("Kingfund"), for a cash consideration of RMB16,000,000. Kingfund is an investment holding company. The principal asset of Kingfund is investment property classified as held for sale of the Group. The disposal was completed on 25 April 2018.

	HK$'000
Consideration for the disposal:	
Consideration received in prior year	13,808
Consideration received in current year	5,155
Exchange loss	(472)
	18,491

Analysis of assets and liabilities at the date of disposal over which control was lost:	HK$'000
Assets classified as held for sale	
Investment property	20,292
Liabilities directly associated with assets classified as held for sale	
Deferred tax liabilities	(1,801)
Net assets disposed of	18,491

39 DISPOSAL OF SUBSIDIARIES (continued)

Disposal took place during the year ended 31 December 2018 (continued)

	HK$'000
Gain on disposal of subsidiaries	
Consideration	18,491
Net assets disposed of	(18,491)
Gain on disposal	–

	HK$'000
Net cash inflow on disposal of subsidiaries	
Consideration received in current year	5,155
Less: Cash and cash equivalents disposed of	–
	5,155

Disposal took place during the year ended 31 December 2017

On 26 June 2017, the Company entered into an agreement with Champ Noble Limited, (a holder of 5.52% equity interest in Shanxi Loudong (see below)) for the disposal of 100% equity interest in a subsidiary, Buddies Power, for a cash consideration of HK$8,000,000. In addition, the Company entered into an agreement with Champ Noble Limited, pursuant to which the accounts balances of the Group with Buddies Power and its subsidiaries were waived upon the completion of the disposal. Buddies Power is an investment holding company. The principal activities of Buddies Power's subsidiary, Shanxi Loudong-General Nice Coking & Gas Co., Ltd. ("Shanxi Loudong"), are (i) coal processing and production of metallurgical coke and by-products; and (ii) trading of metallurgical coke. The disposal took place on 29 September 2017.

	HK$'000
Consideration for the disposal:	
Consideration received	8,000

39 DISPOSAL OF SUBSIDIARIES (continued)

Disposal took place during the year ended 31 December 2017 (continued)

Analysis of assets and liabilities at the date of disposal over which control was lost:

	HK$'000
Property, plant and equipment	81,894
Prepaid land lease payments	30,900
Interests in associates	2,230
Available-for-sale investments	7,424
Inventories	195,421
Trade and bills receivables	912,919
Prepayments, deposits and other receivables	938,297
Equity investments at fair value through profit or loss	587
Income tax recoverable	37
Pledged bank deposits	21,557
Cash and cash equivalents	1,010
Trade payables	(160,150)
Other payables and accruals	(491,041)
Bank borrowings	(1,871,080)
Income tax payable	(510,281)
Deferred tax liabilities	(11,687)
Loan from a related company	(859)
Amounts due to group entities	(1,987,606)
Net liabilities disposed of	(2,840,428)

	HK$'000
Gain on disposal of subsidiaries	
Consideration	8,000
Net liabilities disposed of	2,840,428
Amounts due to group entities waived	(1,962,228)
Cumulative exchange gain in respect of the foreign operations disposed of	79,162
Non-controlling interests	(68,297)
Gain on disposal (note 13)	897,065

	HK$'000
Net cash inflow on disposal of subsidiaries	
Consideration received	8,000
Less: Cash and cash equivalents disposed of	(1,010)
	6,990

40 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities for the year ended 31 December 2018 and 31 December 2017, 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 as cash flows from financing activities.

	Interest payable (included in other payables and accruals)	Convertible bonds	Promissory notes payable	Obligations under finance leases	Bank and other borrowings (excluded bank overdraft)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2017	173,348	657,947	48,715	–	1,874,074	2,754,084
Financing outflow (inflow)	(27,688)	(15,123)	–	(62)	30,147	(12,726)
New finance leases	–	–	–	429	–	429
Conversion of convertible bonds	–	(388,602)	–	–	–	(388,602)
Eliminated on disposal of subsidiaries	(230,629)	–	–	–	(1,871,080)	(2,101,709)
Interest payable reclassified to other payables and accruals	20,696	(20,696)	–	–	–	–
Exchange realignment	9,666	–	–	1	98,443	108,110
Finance costs	76,782	56,027	3,285	–	–	136,094
As at 31 December 2017	**22,175**	**289,553**	**52,000**	**368**	**131,584**	**495,680**
Financing outflow	(18,653)	–	–	(86)	(65,104)	(83,843)
Interest payable reclassified to other payables and accruals	16,520	(16,520)	–	–	–	–
Interest payable and convertible bonds reclassified to bank and other borrowings	(36,000)	(300,000)	–	–	336,000	–
Exchange realignment	–	–	–	1	(2,790)	(2,789)
Finance costs	22,205	26,967	–	–	–	49,172
As at 31 December 2018	**6,247**	**–**	**52,000**	**283**	**399,690**	**458,220**

41 MAJOR NON-CASH TRANSACTIONS

During the year ended 31 December 2018, the CB II with a principal amount of HK$300,000,000 and accrued interest amount of HK$36,000,000 were transferred to bank and other borrowings, details of which are set out in note 31.

During the year ended 31 December 2017, the CB I with an aggregate principal amount of HK$400,000,000 were convertible into 1,393,728,222 new ordinary shares of the Company at the conversion price of HK$0.287 per share, details of which are set out in note 31.

42 OPERATING LEASE ARRANGEMENTS

As lessee

The Group leases certain land and pier, office premise and staff quarter under operating lease arrangements. Lease for the land and pier is negotiated for a term of 30 years and leases for office premise and staff quarter are negotiated for terms of one to three years.

At the end of the reporting period, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018 **HK$'000**	2017 HK$'000
Within one year	**1,038**	2,104
In the second to fifth years, inclusive	**4,359**	4,762
After five years	**20,410**	22,731
	25,807	29,597

43 RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

	2018 **HK$'000**	2017 HK$'000
Short term employee benefits	**5,348**	4,069
Post-employment benefits	**51**	54
Total compensation to key management personnel	**5,399**	4,123

44 FINANCIAL INSTRUMENTS BY CATEGORY

The carrying amounts of each of the categories of financial instruments as at the end of the reporting period are as follows:

Financial assets at 31 December 2018

	Financial assets at amortised cost HK$'000
Trade and bills receivables	**612,590**
Financial assets included in prepayments, deposits and other receivables	**854,936**
Cash and cash equivalents	**43,579**
	1,511,105

Financial assets at 31 December 2017

	Financial assets at amortised cost HK$'000
Loans and receivables	
Trade and bills receivables	208,157
Financial assets included in prepayments, deposits and other receivables	967,247
Cash and cash equivalents	18,663
	1,194,067

44 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial liabilities at 31 December 2018

	Financial liabilities at amortised cost HK$'000
Trade payables	**708,494**
Financial liabilities included in other payables and accruals	**50,227**
Bank and other borrowings	**414,412**
Convertible bonds	**–**
Promissory notes payable	**52,000**
Obligations under finance leases	**283**
	1,225,416

Financial liabilities at 31 December 2017

	Financial liabilities at amortised cost HK$'000
Trade payables	28,417
Financial liabilities included in other payables and accruals	82,861
Bank and other borrowings	144,551
Convertible bonds	289,553
Promissory notes payable	52,000
Obligations under finance leases	368
	597,750

45 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

(a) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

(b) Reconciliation of Level 3 fair value measurement

Reconciliation of Level 3 fair value measurement is not presented as the Group had no financial assets or financial liabilities that are measured at fair value at end of the reporting period.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include promissory notes payable, bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The main risks arising from the Group's financial instruments are interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits and bank borrowings with floating interest rates. The other borrowings carried interest at fixed interest rates. The Group regularly reviews and monitors the floating interest rate in order to manage its interest rate risks.

The sensitivity analyses below have been determined based on the exposure to bank deposits and bank borrowings at floating interest rates at the end of the reporting period. The analysis is prepared assuming the amount of these assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2018 would increase/decrease by HK$419,000 (2017: loss for the year would increase/decrease by HK$1,090,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings.

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi ("RMB") and United States Dollars ("USD"). The Group manages its transactional currency exposures by matching as far as possible, its receipts and payments in each individual currency. The Group monitors the foreign currency exchange rates closely so as to minimise any potential material adverse effects from these exposure in a timely manner.

The following table demonstrates the sensitivity at the respective reporting dates to a reasonable possible change in the exchange rate of RMB and USD with all other variables held constant, of Group's loss before tax.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk (continued)

	Increase/ (decrease) in exchange rate %	(Increase)/ decrease in loss before tax HK$'000
31 December 2018		
If HK$ weakens against RMB	**5**	**430**
If HK$ strengthens against RMB	**(5)**	**(430)**
If HK$ weakens against USD	**0.5**	**(572)**
If HK$ strengthens against USD	**(0.5)**	**572**

	Increase/ (decrease) in exchange rate %	(Increase)/ decrease in loss before tax HK$'000
31 December 2017		
If HK$ weakens against RMB	5	4,116
If HK$ strengthens against RMB	(5)	(4,116)
If HK$ weakens against USD	0.5	413
If HK$ strengthens against USD	(0.5)	(413)

Credit risk

(i) Trade and other receivables and deposits

Trade receivables

The Group applies the simplified approach to provide for expected credit losses for trade and other receivables and deposits prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

As at 31 December 2018, the loss allowance for trade receivables was determined as follows:

	Not past due	Past due less than 1 month	Past due 1 to 3 months	Past due 3 to 12 months	Past due over one year	Total
31 December 2018						
Expected loss rate	**0%–5%**	**0%–10%**	**0%–20%**	**0%–60%**	**80%–100%**	
Gross carrying amount (HK$'000)	**612,505**	**–**	**48**	**483**	**101,144**	**714,180**
Loss allowance (HK$'000)	**186**	**–**	**8**	**252**	**101,144**	**101,590**

The above expected credit losses also incorporated forward looking information.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

(i) *Trade and other receivables and deposits (continued)*

Trade receivables (continued)

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

Deposits and other receivables

The Group uses four categories for deposits and other receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months. expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk: as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 365 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are two years past due and there is no reasonable expectation of recovery	Asset is written off

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of deposits and other receivables and adjusts for forward-looking macroeconomic data.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

(i) Trade and other receivables and deposits (continued)

Deposits and other receivables (continued)

Management assessed that certain deposits and other receivables at 31 December 2018 are regarded non-performing and impairment losses amounted to HK$93,742,000 and HK$20,268,000 have been made for those deposits and other receivables respectively. Save as aforementioned, the Group's internal credit rating of the remaining deposits and other receivables were performing. The Group has assessed that the expected credit loss rate for the remaining deposits and other receivables is immaterial under 12 months expected losses method. Thus no loss allowance for those deposits and receivables was recognised.

In the prior year, for trade receivables, the Group performed ongoing credit evaluations of its debtors' financial condition and did not require collateral from the debtors on the outstanding balances. Based on the expected recoverability and timing for collection of the outstanding balances, the Group maintained a provision for doubtful accounts and actual losses incurred had been within management's expectations. For other receivables, management made periodic collective assessments as well as individual assessment on the recoverability of other receivables based on historical settlement records and past experience.

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is derived from its trade and bills receivables, other receivables, and cash deposits at banks.

The credit quality of the debtors is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. As at 31 December 2018, the Group had a concentration of credit risk given that the top 5 customers account for 98% (2017: 83%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any major impairment on trade receivables, and receivables from other counterparties.

Receivables that aged less than 360 days substantially related to two customers that has a good trade record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances in there had not been a significant change quality and the balance are still considered fully recoverable.

(ii) Cash at bank and bank deposits

The table below shows the details of bank deposit balances maintained at the end of the reporting period:

	Rating	**2018** **HK'$000**	2017 HK$'000
Cash at banks and bank deposits	A1-A3	**43,570**	18,658

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Accordingly, management of the Group considers that the credit risk on the bank balances and bank deposits is limited.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and other source of funding.

As referred to in note 2, management of the Company has made several measures and arrangements to enable the Group to have sufficient cash resources to operate as a going concern.

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are based on floating rate, the undiscounted amount is calculated by interest rate curve.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these no-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The amount included below for variable interest rate instruments for the non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2018 HK$'000
As at 31 December 2018				
Non-derivative assets				
Trade and bills receivables	612,590	–	612,590	612,590
Financial assets included in prepayments, deposits and other receivables	854,936	–	854,936	854,936
Cash and cash equivalents	43,579	–	43,579	43,579
	1,511,105	–	1,511,105	1,511,105

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2018 HK$'000
As at 31 December 2018				
Non-derivative financial liabilities				
Trade and bills payables	708,494	–	708,494	708,494
Financial liabilities included in other payables and accruals	50,227	–	50,227	50,227
Bank and other borrowings	441,073	–	441,073	414,412
Convertible bonds	–	–	–	–
Promissory notes payable	52,000	–	52,000	52,000
Obligations under finance leases	89	199	288	283
	1,251,883	199	1,252,082	1,225,416

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2017 HK$'000
As at 31 December 2017				
Non-derivative assets				
Trade and bills receivables	208,157	–	208,157	208,157
Financial assets included in prepayments, deposits and other receivables	967,247	–	967,247	967,247
Cash and cash equivalents	18,663	–	18,663	18,663
	1,194,067	–	1,194,067	1,194,067

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2017 HK$'000
As at 31 December 2017				
Non-derivative financial liabilities				
Trade payables	28,417	–	28,417	28,417
Financial liabilities included in other payables and accruals	82,861	–	82,861	82,861
Bank and other borrowings	149,672	–	149,672	144,551
Convertible bonds (note below)	316,521	–	316,521	289,553
Promissory notes payable	52,000	–	52,000	52,000
Obligations under finance leases	88	288	376	368
	629,559	288	629,847	597,750

Note: This is categorized based on contractual term of redemption at maturity on the assumption that there were no redemption or conversion of the convertible bonds outstanding at 31 December 2017 before the maturity dates.

Oil price risk

Since the Group makes reference to international oil prices to determine the product price in the oil segment, the Group is exposed to commodity price risk related to price volatility of oil. The Group actively monitors and manages the oil price risk.

46 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Capital management

The primary objective of the Group's capital management is to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholder value.

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes bank and other borrowings, promissory notes payable and convertible bonds, less cash and cash equivalents. Total capital includes total equity attributable to owners of the Company and net debt. The gearing ratios as at the ends of reporting periods were as follows:

	2018 **HK$'000**	2017 HK$'000
Bank and other borrowings	**414,412**	144,551
Promissory notes payable	**52,000**	52,000
Convertible bonds, the liability component	**–**	289,553
Less: Cash and bank balances	**(43,579)**	(18,663)
Net debt	**422,833**	467,441
Equity attributable to owners of the Company	**657,342**	1,158,151
Total equity and net debt	**1,080,175**	1,625,592
Gearing ratio	**39%**	29%

47 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	–	–
Investments in subsidiaries	–	–
Amounts due from subsidiaries	734,313	924,313
Total non-current assets	734,313	924,313
CURRENT ASSETS		
Prepayments, deposits and other receivables	1,210	31,570
Amounts due from subsidiaries	270,493	442,292
Cash and cash equivalents	241	778
Total current assets	271,944	474,640
CURRENT LIABILITIES		
Other payables and accruals	30,964	45,177
Bank and other borrowings	371,230	23,560
Promissory notes payable	52,000	52,000
Convertible bonds	–	289,553
Amounts due to subsidiaries	2,139	1,738
Total current liabilities	456,333	412,028
NET CURRENT (LIABILITIES) ASSETS	(184,389)	62,612
NET ASSETS	549,924	986,925
EQUITY		
Share capital	57,036	57,036
Reserves (Note)	492,888	929,889
TOTAL EQUITY	549,924	986,925

The statement of financial position of the Company was approved and authorised for issue by the board of directors on 28 March 2019 and is signed on its behalf by:

Cai Jianjun
Director

Wang Xiusong
Director

47 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: Movements of the Company's reserves are as follows:

	Share premium account HK$'000	Share option reserve HK$'000	Equity component of convertible bonds HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2017	1,082,509	1,439	66,356	160,670	773,090	(1,389,632)	694,432
Loss for the year and total comprehensive income for the year	–	–	–	–	–	(139,208)	(139,208)
Issue of share upon conversion of convertible bonds	409,588	–	(34,923)	–	–	–	374,665
Share options lapsed	–	(1,439)	–	–	–	1,439	–
At 31 December 2017 and at 1 January 2018	**1,492,097**	**–**	**31,433**	**160,670**	**773,090**	**(1,527,401)**	**929,889**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**–**	**(437,001)**	**(437,001)**
Transfer to accumulated losses upon redemption of convertible bonds	**–**	**–**	**(31,433)**	**–**	**–**	**31,433**	**–**
At 31 December 2018	**1,492,097**	**–**	**–**	**160,670**	**773,090**	**(1,932,969)**	**492,888**

48 SUBSIDIARIES

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and business	Issued/ paid up capital	Percentage of equity interest attributable to the Company Direct 2018	Indirect 2018	Direct 2017	Indirect 2017	Principal activities
Kingfund Corporation Limited	Hong Kong	HK$1	**–**	**–**	–	–	Property investment
Abterra Coal & Coke Limited@	Hong Kong	HK$10,000	**–**	**–**	–	100%	Investment holding
Shanxi Loudong@	PRC	RMB446,000,000	**–**	**–**	–	94.48%	Coke processing and manufacture of relevant chemicals
Super Energy Limited	Hong Kong	HK$1	**100%**	**–**	100%	–	Administrative function
Earning Power Inc.	British Virgin Islands ("BVI")	US$2	**–**	**100%**	–	100%	Investment holding

48 SUBSIDIARIES (continued)
Information about subsidiaries (continued)

Name	Place of incorporation and business	Issued/ paid up capital	Percentage of equity interest attributable to the Company Direct 2018	Indirect 2018	Direct 2017	Indirect 2017	Principal activities
City Joint Investments Limited	BVI	US$1	**100%**	**–**	100%	–	Investment holding
Metro Winner Trading Limited	Hong Kong	HK$1	**–**	**100%**	–	100%	Trading of commodities
Northern Lynx Exploration	USA	US$300,000	**–**	**100%**	–	100%	Investment holding
Mega Oil Inc.	USA	US$1,000	**–**	**100%**	–	100%	Extraction and sales of oil
Sheen Day Limited	Hong Kong	HK$1	**–**	**100%**	–	100%	Property holding
Dongguan City Hai Hui Logistics Company Limited^*	PRC	RMB30,500,000	**–**	**100%**	–	100%	Provision of logistics and warehousing services
Kai Sum International Limited	BVI	US$2	**–**	**100%**	–	100%	Investment holding
Wealth Delight International Holdings Limited	BVI	US$1	**–**	**100%**	–	100%	Investment holding
Qian'an Logistics^	PRC	RMB100,000,000	**–**	**70%**	–	70%	Trading of commodities and provision of logistics and warehousing services

The subsidiary is registered as a Sino-foreign investment enterprise under the PRC law.

^ The subsidiary is registered as a limited liability enterprise under the PRC law.

@ These entities were disposed during the year ended 31 December 2017.

* The English names of these companies are directly translated from their Chinese names as no English names have been registered.

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

None of the subsidiaries had issued any debt securities at the end of the year.

48 SUBSIDIARIES (continued)

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

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

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2018	2017	**2018**	2017	**2018**	2017
		%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Qian'an Logistics	PRC	**30**	30	**5,305**	12,363	**81,797**	80,881
Shanxi Loudong (Note)	PRC	**N/A**	N/A	**–**	(3,194)	**–**	–
				5,305	9,169	**81,797**	80,881

Note: During the year ended 31 December 2017, Shanxi Loudong was disposed of by the Group on 29 September 2017, details of which are set out in note 39. The revenue and loss for the period up to the date of disposal are as follows:

Summarised financial information in respect of the Company's subsidiaries at 31 December 2018 and 2017 that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

48 SUBSIDIARIES (continued)

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

Qian'an Logistics

	In respect of the year ended 31 December 2018 HK$'000	2017 HK$'000
Current assets	**1,516,950**	953,729
Non-current assets	**214,165**	243,023
Current liabilities	**(1,454,253)**	(922,776)
Non-current liabilities	**(4,395)**	(4,547)
Equity attributable to owners of the Company	**190,670**	188,548
Non-controlling interests	**81,797**	80,881
Revenue	**11,529,626**	2,471,916
Expenses	**(11,511,942)**	(2,430,707)
Profit for the year	**17,684**	41,209
Profit attributable to owners of the Company	**12,379**	28,846
Profit attributable to non-controlling interests	**5,305**	12,363
Profit for the year	**17,684**	41,209
Total comprehensive income attributable to owners of the Company	**9,112**	41,068
Total comprehensive income attributable to non-controlling interests	**3,905**	17,609
Total comprehensive income for the year	**13,017**	58,677
Net cash inflow from operating activities	**123,859**	19,673
Net cash outflow from investing activities	**(3,617)**	(18,765)
Net cash outflow from financing activities	**(92,135)**	(4,618)
Net cash inflow (outflow)	**28,107**	(3,710)

48 SUBSIDIARIES (continued)

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

Shanxi Loudong

	1 January 2017 to 29 September 2017 HK$'000
Revenue	1,073,257
Expenses	(1,131,105)
Loss for the period	(57,848)
Loss attributable to owners of the company	(54,654)
Loss attributable to non-controlling interests	(3,194)
Loss for the period	(57,848)
Total comprehensive income attributable to owners of the Company	(110,095)
Total comprehensive income attributable to non-controlling interests	(6,432)
Total comprehensive income for the period	(116,527)

The loss for the period to the extent of HK$143,109,000 is attributable to discontinued operations, as analysed in note 13.

49 EVENTS AFTER REPORTING PERIOD

On 26 January 2019, the Company entered into an investment and shareholders agreement with Kunlun Energy Company Limited ("Kunlun Energy") and Noble Bridge Capital (Hong Kong) Limited ("Noble Bridge")(the "JV Agreement") in relation to the formation of a joint venture company (the "JV Company"). Pursuant to the JV Agreement, the Company, Kunlun Energy and Noble Bridge will contribute HK$40,000,000, HK$45,000,000 and HK$15,000,000 to the JV Company and own 40%, 45% and 15% equity interest of the JV Company respectively. The JV Company and its subsidiaries will mainly engage in the business of (i) serving as an investment management platform and responsible for fund raising in Hong Kong; (ii) conducting liquified natural gas ("LNG") business by leasing the LNG plants and ancillary facilities of Wuhui Huaqi Company Limited, a subsidiary of Kunlun Energy; and (iii) participating in capital restructure of Wuhui Huaqi Company Limited for ensuring a stable operation of all production steps in the whole industrial chain of LNG upon further agreement by the parties.

Supplemental Information on Oil Exploring and Producing Activities (Unaudited)

31 December 2018

On 18 December 2014, the Company completed to acquire a group engaged in exploration and production of oil as well as provision of well services in the States of Illinois and Indiana in the USA at a consideration of HK$295,000,000. The Group's estimated net oil reserves for the year ended 31 December 2018 and 2017 are shown in the following table.

Proved oil reserves are those quantities of oil, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project with a reasonable time.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Net reserves exclude royalties and interests owned by others.

Reserve summary

Location	**2018 Light and Medium Oil MSTB**	2017 Light and Medium Oil MSTB
In the State of Illinois		
Proved	**687**	694
Probable	**1,080**	1,080
	1,767	1,774
In the State of Indiana		
Prove	**76**	77
Probable	**439**	439
	515	516
Total proved and probable	**2,282**	2,290

MSTB represents thousand of stock tank barrels of oil.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Continuing operations					
Revenue	**11,536,943**	3,090,306	2,561,245	1,569,903	5,825,864
Cost of sales and services	**(11,469,113)**	(2,899,156)	(2,504,340)	(1,495,216)	(5,186,775)
Gross profit	**67,830**	191,150	56,905	74,687	639,089
Other income and gains	**1,831**	19,144	34,865	29,620	65,874
Reversal of impairment of interests in an associate	**15,910**	–	–	–	–
Selling and distribution expenses	**(218)**	(29)	(122)	(118,887)	(170,015)
Administrative expenses	**(57,942)**	(48,923)	(40,218)	(85,818)	(70,155)
Other operating expenses	**–**	–	–	(4,185)	(39,965)
Loss on disposal of an associate	**(8,757)**	–	–	–	–
Impairment of property, plant and equipment	**–**	–	–	–	–
Impairment of investment in an associate and amount due from an associate	**(190,000)**	–	–	(354,488)	–
Impairment of goodwill	**(7,840)**	(85,908)	(29,238)	–	(56,400)
Impairment of oil properties	**(34,332)**	(38,934)	(13,614)	(72,145)	–
Impairment of trade receivables	**(92,955)**	(235)	(9,146)	(351,211)	(167,046)
Impairment of prepayments, deposits and other receivables	**(114,010)**	–	(2,876)	(39,825)	(177,336)
Share of losses of associates	**(2,858)**	(1,909)	(1,452)	(1,195)	–
Finance costs	**(49,172)**	(64,107)	(70,649)	(191,572)	(88,411)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**(472,513)**	(29,751)	(75,545)	(1,115,019)	(64,365)
Income tax credit (expense)	**24,460**	(44,516)	(9,475)	(222,844)	(332,478)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	**(448,053)**	(74,267)	(85,020)	(1,337,863)	(396,843)
Discontinued operations					
Profit for the period from discontinued operations	**–**	753,956	(617,755)	–	–
PROFIT (LOSS) FOR THE YEAR	**(448,053)**	679,689	(702,775)	(1,337,863)	(396,843)

Five Year Financial Summary

			Year ended 31 December		
	2018	2017	2016	2015	2014
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(448,053)**	679,689	(702,775)	(1,337,863)	(396,843)
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	**(52,013)**	(24,055)	21,533	14,970	(26,179)
Reclassification adjustments relating to foreign operations disposed of during the year	**–**	(79,162)	–	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**(52,013)**	(103,217)	21,533	14,970	(26,179)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(500,066)**	576,472	(681,242)	(1,322,893)	(423,022)
Loss for the year from continuing operations attributable to:					
Owners of the Company	**(453,358)**	(91,336)	(95,352)	–	–
Non-controlling interests	**5,305**	17,069	10,332	–	–
	(448,053)	(74,267)	(85,020)	–	–
Profit/(loss) attributable to:					
Owners of the Company	**(453,358)**	670,520	(679,007)	(1,291,990)	(376,988)
Non-controlling interests	**5,305**	9,169	(23,768)	(45,873)	(19,855)
	(448,053)	679,689	(702,775)	(1,337,863)	(396,843)
Total comprehensive income attributable to:					
Owners of the Company	**(500,977)**	565,290	(658,076)	(1,277,851)	(402,412)
Non-controlling interests	**911**	11,182	(23,166)	(45,042)	(20,610)
	(500,066)	576,472	(681,242)	(1,322,893)	(423,022)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**2,772,338**	2,725,045	5,091,549	4,049,987	4,341,782
TOTAL LIABILITIES	**(2,033,199)**	(1,486,008)	(4,886,668)	(3,748,483)	(3,354,643)
NON-CONTROLLING INTERESTS	**(81,797)**	(80,886)	(1,407)	31,213	(13,829)
	657,342	1,158,151	203,474	332,717	973,310