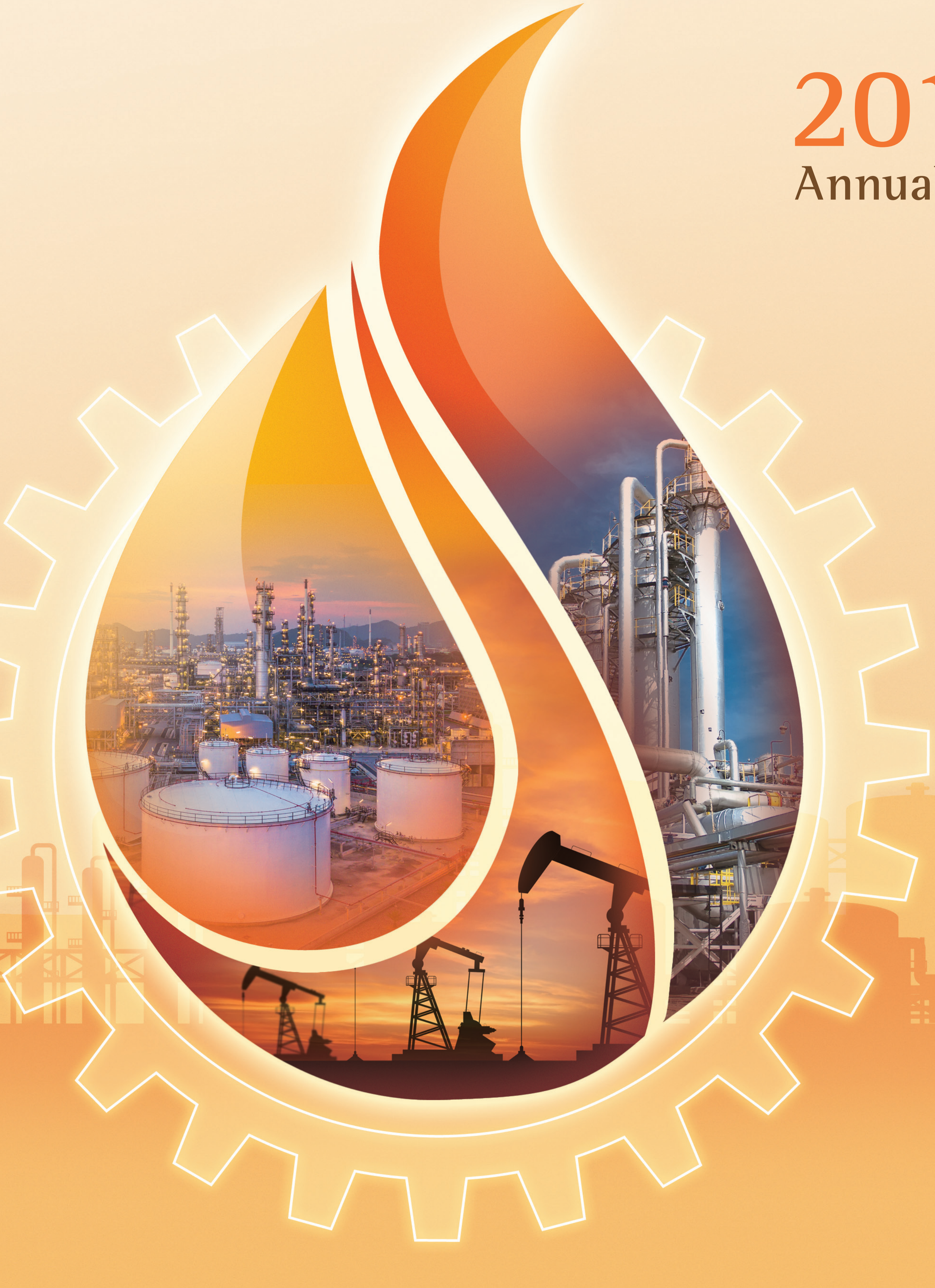
Yuhua Energy Holdings Limited
裕華能源控股有限公司
(Incorporated in the Cayman Islands with limited liability) (Stock Code: 2728)

# 2018 Annual Report



# Contents

# Corporate Information

## BOARD OF DIRECTORS

**Executive Directors**

Mr. Lin Caihuo *(Chairman of the Board)*
Mr. Wang Enguang

**Non-Executive Director**

Mr. Wang ShouLei

**Independent Non-Executive Directors**

Mr. Lum Pak Sum
Mr. Liu Yang
Mr. Xu Changyin (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

## AUDIT COMMITTEE

Mr. Lum Pak Sum *(Chairman of the Committee)*
Mr. Liu Yang
Mr. Xu Changyin (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

## REMUNERATION COMMITTEE

Mr. Liu Yang *(Chairman of the Committee)*
Mr. Lin Caihuo
Mr. Lum Pak Sum
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

## NOMINATION COMMITTEE

Mr. Xu Changyin *(Chairman of the Committee)* (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel *(Chairlady of the Committee)* (resigned on 17 December 2018)
Mr. Lin Caihuo
Mr. Liu Yang
Mr. Lum Pak Sum

## AUTHORIZED REPRESENTATIVES

Mr. Lin Caihuo
Mr. Wang Enguang

# Corporate Information

## COMPANY SECRETARY

Ms. Mak Po Man Cherie (appointed on 5 September 2018)
Ms. Wong Nga Yan (resigned on 9 August 2018)

## AUDITOR

Cheng & Cheng Limited
*Certificated Public Accountants*

## REGISTERED OFFICE

Cricket Square
Hutchins Drive, P.O. Box 2681
Grand Cayman KY1-1111
Cayman Islands

## HEAD OFFICE

22/F, Building B, No. 86, Haijing Road
Xiamen Area
Fujian Free Trade Area
Fujian Province
the People's Republic of China

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

40/F, Sunlight Tower
No. 248 Queen's Road East
Wan Chai
Hong Kong

## PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

# Corporate Information

## HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716, 17th Floor
Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

## PRINCIPAL BANKERS

Bank of Communications, Xiamen Branch
The Bank of East Asia, Limited

## LEGAL ADVISER

As to Hong Kong law
Loong & Yeung Solicitors

As to Cayman Islands law
Conyers Dill & Pearman, Cayman

## STOCK CODE

2728 (listed on the Main Board of The Stock Exchange of Hong Kong Limited)

## WEBSITE

www.yuhuaenergy.com

# Chairman's Statement

## DEAR SHAREHOLDERS,

On behalf of the board (the "**Board**") of directors (the "**Directors**"), I am pleased to report to you the audited annual results for the year ended 31 December 2018 (the "**Reporting Period**" or the "**Year**") of Yuhua Energy Holdings Limited (the "**Company**", together with its subsidiaries, collectively the "**Group**").

During the Reporting Period, the Group recorded a turnover of approximately HK$1,848 million (2017: approximately HK$9,500 million), representing a significant decrease of approximately 81% as compared with the corresponding period of last year. Losses for the Year attributable to the owners of the Company amounted to approximately HK$352 million (2017: profits of approximately HK$47 million).

The significant loss of the Company during the Reporting Period was mainly due to the significant decrease in turnover of energy trading business to HK$1,766.20 million (2017: approximately HK$9,433.04 million), representing a decrease of approximately 81.3%. US-China Trade War raised doubts about the slowdown in global economic growth and weak demand for crude oil. The oversupply of oil led to the continuous decrease in oil price in 2018, hence seriously affecting energy trading business.

In mid-2015, looking at the energy trading market at that time, the Group believed that fuel oil products had great potential. Therefore, it actively deployed to develop the fuel oil products market and accelerated the increase of market share, and commenced the business relationship with Shanghai Baota Petrochemical Co., Ltd* ("**Baota**"), a fuel oil products supplier. We made prepayment to Baota for stable supply of fuel oil products. However, since the beginning of 2018, there were certain delays in delivery by Baota, which prevented the Group from delivering goods to its customers, further exacerbating energy trading business. As of 31 December 2018, we made prepayment to Baota in the amount of RMB483,832,000. In November 2018, there were news about the liquidity problem of Baota. After several months of observation, the Board decided to make the provision amounting to 50% (in the amount of approximately RMB241,916,000 (equivalent to HK$285,952,000)) for the prepayment. The significant amount of provision was one of the main reasons for the substantial losses for the Year. To this end, the Company has set up a special group comprising executive Directors to actively and diligently contact Baota and plan to carry out legal means to recover prepayments in order to safeguard the interests of the Group and its shareholders.

The Baota incident had a certain impact on the Group's capital turnover. As at 31 December 2018 and up to the date of this report, loan principal of HK$204,738,000 (included in borrowings of the Group amounting to HK$396,532,000) and interest payable HK$12,759,000 were not repaid in accordance with the scheduled payment dates. The Group has taken a number of measures to improve its liquidity. The Group has always maintained good relationship with its lenders, obtaining understanding and support from lenders in respect of short-term insufficient liquidity. The Group has also been in close contact with lenders to extend the maturity date of loans so as to ensure that no action will be taken by those lenders to demand immediate repayment. On the other hand, as the Chairman of the Group, I promise to make continuing financial supports to the Group and strive to maintain the business continuity.

Finally, I would like to take this opportunity to thank all our business partners and the shareholders of the Company (the "**Shareholders**") for their continuing support in our Group. I would also like to express my deepest appreciation to all staff and our Board for their effort and dedication to the Group.

**Lin Caihuo**
*Chairman of the Board*

29 March 2019

# Management Discussion and Analysis

## BUSINESS REVIEW

During the Reporting Period, the Group was principally engaged in the manufacturing, trading and transportation business. Our activities can be categorised into (i) energy trading; (ii) oil tanker transportation; and (iii) speaker units businesses.

### Energy Trading Business

Suffered by geopolitics and US-China Trade War, the Company faced a significant challenge on the energy trading business during the Reporting Period. For the revenue from energy trading business, the turnover was approximately HK$1,766.20 million for the Reporting Period (2017: approximately HK$9,433.04 million). The turnover decreased by approximately 81.3% (2017: increased by approximately 73.6%), which was mainly due to 1) international oil price fluctuations resulted from US-China Trade War; 2) the decrease in the number of customers; and 3) a decrease in sales orders from customers in view of the price instability in oil market under the uncertain outcome of trade tensions, rapid changes in the industry product market and renewal of government policies.

Since May 2015, the Company had commenced the business relationship with Shanghai Baota Petrochemical Co., Ltd. ("**Baota**"), in our fuel oil products business. We used to make prepayment to Baota for stable supply of fuel oil products. For the three years ended 31 December 2016, 2017 and 2018, we made prepayment to Baota in the amount of approximately RMB155,667,000, RMB426,832,000 and RMB483,832,000, respectively.

For the two years ended 31 December 2016 and 2017, we generated approximately RMB37.26 million and RMB44.90 million gross profit from fuel oil products business in which approximately 70% and 14% oil products were supplied by Baota.

Since the beginning of 2018, there were material delays in delivery by Baota, which failed to comply with the terms and conditions of our supplier contracts. We terminated our business cooperation with Baota since 31 July 2018 and started to pursue the damages according to those contracts.

In November 2018, our Board noted the news about the liquidity problem of Baota.

In view of the above background, our Board unanimously agreed to make the provision amounting to 50% (in the amount of RMB241,916,000) for the prepayment of approximately RMB483,832,000.

To minimize the effects of abovementioned factors, the Company modified the existing energy trading business strategy and devoted extra effort on developing various energy trading products. During the Reporting Period, the revenue was approximately HK$1,766.20 million.

### Oil Tanker Transportation

For the Reporting Period, the Group recorded transportation income of approximately HK$29.47 million, representing a slightly decrease of approximately 0.5% from the corresponding period of last year and representing approximately 1.4% of the total revenue. Since the business involved the transfer of ownership of vessels in August 2018, the contribution of the business to the Group was insignificant.

## BUSINESS REVIEW *(Continued)*

### Speaker Units Business

The speaker units business recorded approximately HK$312.51 million during the Reporting Period (2017: approximately HK$567.64 million), representing a drop of approximately 44.9%. The decrease was mainly due to the decrease in sales orders from existing customers. During the Reporting Period, the Company disposed the entire issued share capital in Crown Million Industries (International) Limited ("冠萬實業(國際)有限公司") (the "**Disposal Company**" together with its subsidiaries, collectively the "**Disposal Group**"), an indirect wholly-owned subsidiary of the Company, to an independent third party. For further details, please refer to the announcements of the Company dated 30 September 2016, 25 May 2018, 29 May 2018 and 4 June 2018.

In the view of the disposal of the Disposal Group at the beginning of June 2018, the financial results subsequent to the disposal of the Disposal Group did not consolidate in the Group.

## FINANCIAL REVIEW

### Results Performance

For the Reporting Period, the Group's revenue decreased by 80.5% to approximately HK$1,849 million (2017: approximately HK$9,500 million). The decrease in revenue was mainly attributable to significantly decrease in sales income in the energy trading business. The Group has reported a loss for the Reporting Period to approximately HK$351.81 million (2017: net profit of approximately HK$46.85 million). The loss was mainly due to a decrease in sales income from the energy trading business of the Group; the disposal of the high gross profit margin segment of oil tanker transportation and speaker manufacturing; an increase in the finance cost; the fair value loss from investment properties and the provision for impairment of trade and other receivable of approximately HK$21.89 million.

For the Reporting Period, basic loss per share of continuing operations of approximately HK11.85 cents (2017: basic earnings per share of approximately HK0.94 cents). The Group did not pay an interim dividend during the Reporting Period. The Board did not recommend the payment of a final dividend for the Reporting Period (2017: nil).

### Liquidity and Financial Resources

As at 31 December 2018, the Group had cash and cash equivalents of approximately HK$16.46 million (31 December 2017: approximately HK$20.32 million), which were mainly denominated in Hong Kong dollars, US dollars and Renminbi.

As at 31 December 2018, the Group's net current liabilities were approximately HK$33.51 million (31 December 2017: net current asset approximately HK$262.56 million). The Group's current ratio, being the proportion of total current assets to total current liabilities, was approximately 0.94 as compared to approximately 1.24 as at 31 December 2017. The Group had bank and other borrowings of approximately HK$396.53 million (31 December 2017: approximately HK$309.01 million) which were denominated in Renminbi and Hong Kong dollars. The annual interest rates of the bank and other borrowings for the year ended 31 December 2018 was ranged from approximately 4.437% to approximately 6% (31 December 2017: ranged from 4.785% to 5.003%) per annum. The above bank and other borrowings was accounted for as current liabilities of the Group and repayable within one year.

The gearing ratio of the Group increased to approximately 632% (31 December 2017: approximately 72.3%). The ratio is computed by dividing total borrowings of approximately HK$396.53 million (31 December 2017: approximately HK$309.01 million) by shareholders' equity of approximately HK$62.70 million (31 December 2017: approximately HK$427.59 million).

## FINANCIAL REVIEW *(Continued)*

### Capital Resources

On 17 January 2018, the Company effected a share subdivision in which each existing issued and unissued ordinary shares of the Company of a par value of HK$0.0025 each was divided into two ordinary shares of the Company of a par value of HK$0.00125 each (the "**Shares**").

### Capital Expenditure

During the Reporting Period, the Group's total capital expenditure amounted to approximately HK$0.80 million (2017: approximately HK$50.50 million).

### Treasury Policies

The Group does not engage in any leveraged or derivative products. Since most of the Group's assets and liabilities are denominated in HK dollars, Renminbi and US dollars and the exchange rates of such currencies were relatively stable over the Reporting Period, the Group believes that exposure to fluctuation in above currencies does not have any significant adverse effect to the Group. Nonetheless, the Group will closely monitor the foreign currency exposure and arrange for hedging facilities when necessary.

### Employees

As at 31 December 2018, the Group's work force amounted to approximately 23 staff (2017: approximately 1,126 staff) in Hong Kong and the PRC collectively. During the Reporting Period, Crown Million Industries (International) Limited under the speaker units business was disposed, which involved approximately 1,088 factory workers. Together with the disposal of the oil tanker, which involved approximately 30 crew and management personnel, the number of employees of the Company sharply reduced. Staff costs (excluding Directors' emoluments) amounted to approximately HK$65.74 million (2017: approximately HK$97.08 million). The Group ensures that the pay levels of its employees are competitive and in accordance with market trends and its employees receive dividends and bonuses on a performance basis and within the general framework of the Group's salary and bonus system. The remuneration policy of the Group is based on the merit, qualifications and competence of the individual.

### Contingent Liabilities

As at 31 December 2018, the Group had no material contingent liabilities.

### Pledge on the Group's Assets

As at 31 December 2018, the investment properties in the amount of approximately HK$95 million have been pledged as security for the borrowings of the Group.

## FINANCIAL REVIEW *(Continued)*

**Significant investments, material acquisitions and disposal of subsidiaries, associates and joint ventures**

***(i) Disposal of the entire issued share capital in Crown Million Industries (International) Limited***

On 25 May 2018, the Group entered into a disposal agreement with an independent third party in relation to disposal of the entire issued share capital in the Disposal Group at the consideration of approximately HK$32.66 million. The Disposal Group is principally engaged in investment holding, producing and trading of home theatre and automotive speaker systems.

The consideration has been determined after arm's length negotiations between the vendor and the purchaser with reference to the net asset value of the Disposal Group as at the completion date. Please refer to the announcements of the Company dated 25 May 2018, 26 May 2018 and 4 June 2018 for further details.

***(ii) Disposal of a Vessel***

On 17 August 2018, Yuhua Energy (Hong Kong) Limited, a wholly owned subsidiary of the Company, entered into the memorandum of agreement with Hongkong Asia International Marine Limited, in relation to the disposal of the vessel at a consideration of approximately HK$45.7 million.

Delivery of the vessel was conducted after the Group had fulfilled existing orders at the end of August 2018.

For details, please refer to the announcement of the Company dated 17 August 2018.

Save as disclosed above, there was no significant investment held, material acquisition or disposal of subsidiaries and associated companies during the Reporting Period.

## PROSPECTS

Even the results for the Reporting Period fails to live up to the Company's expectation, the management still has the confidence to improve the current profitability by exploring various energy trading products and improving the operating costs of the Company. For the oil tanker transportation business, the Company will continue to develop oil tanker transportation business by purchasing vessels with a lower age and a higher price-performance ratio at a suitable time. The Company will continuously attribute the resources on expanding the upstream and downstream of the business.

Looking forward, the Group will focus on the development of its energy trading and oil tanker transportation businesses in all aspects. In addition, the Group will also explore other investment opportunities that are beneficial to the Shareholders.

* *For identification purpose only*

# Corporate Governance Report

## COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company is committed to maintaining a high standard of corporate governance and has put in place self regulatory corporate practices to protect the interests of the Shareholders and the enhancement of Shareholders' value. Our mission in terms of corporate governance is to provide high-quality products and services to the satisfaction of our customers and maintain high standards of business ethics and achieve these goals while, at the same time, providing satisfactory and sustainable returns to the Shareholders.

In addition, the Group acts in a socially responsible manner through a variety of initiatives and considers this as a part of its overall commitment to good corporate governance.

The Company has a code of business conduct that sets out principles, values and standards of conduct expected of management and staff throughout the Group, and underpins our operating procedures and policies.

Save as disclosed in "Chairman and Chief Executive Officer" and "Board Meetings" in this report, the Company has applied and complied with the code provisions set out in the Corporate Governance Code (the"**CG Code**") of Appendix 14 to the Rule Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") for the Reporting Period.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") set out in Appendix 10 to the Listing Rules as its own code of conduct regarding securities transactions by the Directors of the Company. On specific enquiries made by the Company, all Directors have confirmed that they have fully complied with the required standards set out in the Model Code throughout the Reporting Period.

## BOARD OF DIRECTORS

### Composition

The Directors who hold office during the Reporting Period and as at the date of this annual report are as follows:

**Executive Directors**

Mr. Lin Caihuo *(Chairman of the Board)*
Mr. Wang Enguang

**Non-Executive Director**

Mr. Wang ShouLei

**Independent Non-Executive Directors**

Mr. Lum Pak Sum
Mr. Liu Yang
Mr. Xu Changyin (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

## BOARD OF DIRECTORS *(Continued)*

**Composition** *(Continued)*

Following the resignation of Ms. Wong Yan Ki, Angel as an independent non-executive Director on 17 December 2018, the Company only had two independent non-executive Directors and two members in the Audit Committee and hence the number of the independent non-executive Directors and the member of the Audit Committee had fallen below the minimum number required under Rules 3.10(1) and 3.21 of the Listing Rules. Furthermore, there was also a vacancy for the chairman of the Nomination Committee and hence the Company no longer fulfilled the requirement of establishing a nomination committee chaired by the chairman of the Board or an independent non-executive Director under code provision A.5.1 of the CG Code contained in Appendix 14 to the Listing Rules.

Mr. Xu Changyin was appointed as an independent non-executive Director, member of the Audit Committee and as a chairman of the Nomination Committee of the Company on 16 March 2019.

Upon the appointment of Mr. Xu Changyin, the Board comprises three independent non-executive Directors, namely Mr. Lum Pak Sum, Mr. Liu Yang and Mr. Xu Changyin; the Audit Committee comprises three independent non-executive Directors, namely Mr. Lum Pak Sum (chairman), Mr. Liu Yang and Mr. Xu Changyin; and the Nomination Committee comprises one executive Director, namely Mr. Lin Caihuo, and three independent non-executive Directors, namely Mr. Lum Pak Sum, Mr. Liu Yang and Mr. Xu Changyin (chairman). Therefore, the compositions of the Board and the Audit Committee are in compliance with the requirements under Rule 3.10(1) and Rule 3.21 of the Listing Rules, respectively and the composition of the Nomination Committee is in compliance with code provision A.5.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules.

The biographical details of the Directors are set out in the section headed "Biographical Details of Directors" on pages 34 to 36 of this annual report. There is no relationship (whether financial, business, family or other material or relevant relationships) amongst members of the Board, senior management or substantial Shareholder or controlling Shareholder of the Company.

The composition of the Board is well balanced with each Director having extensive corporate and strategic planning experience, sound industry knowledge and/or professional expertise. All independent non-executive Directors have offered sufficient time and efforts to serve the business affairs of the Company. They also possess appropriate academic and professional qualifications and related management experience and have contributed to the Board with their professional opinion. The Board believes that the ratio among executive Directors, non-executive Director and independent non-executive Directors is reasonable and appropriate. The Board also believes that the participation of independent non-executive Directors shall offer their independent judgment on issues relating to strategy, performance, conflict of interest and management process such that the interests of all Shareholders and the Group are considered and safeguarded.

## BOARD OF DIRECTORS *(Continued)*

### Role and Function

The Board is fully responsible for the formulation of business policies and strategies in relation to the business operation of the Group and to ensure the availability of resources as well as the effectiveness of its system of internal control.

Implementation and execution of the policies and strategies formulated by the Board and the daily operations are delegated from the Board to the management of the Company. In addition, an audit committee (the "**Audit Committee**"), a remuneration committee (the "**Remuneration Committee**") and a nomination committee (the "**Nomination Committee**") were set up to assist the Board in fulfilling certain responsibilities. Further details of these committees are set out in the section headed "Board Committees" of this annual report.

### Chairman and Chief Executive Officer

Code provision A.2.1 of the CG Code stipulated that the roles of chairman of the board (the "**Chairman**") and chief executive officer (the "**CEO**") should be separate and should not be performed by the same individual. The division of responsibilities between the Chairman and CEO should be clearly established and set out in writing.

The role of Chairman is assumed by Mr. Lin Caihuo. The Chairman formulates the overall strategic direction of the Group. The Company had not appointed any CEO throughout the Reporting Period. The role of the CEO has been performed collectively by all the executive Directors. The Board considers that this arrangement allows contributions from all executive Directors with different expertise and is beneficial to the continuity of the Company's policies and strategies and in the interests of the Shareholders as a whole. The Board shall nevertheless review the structure from time to time and shall consider appropriate adjustments if suitable circumstance arise.

Pursuant to the requirement of Rule 3.10 of the Listing Rules, one of independent non-executive Director has appropriate professional qualification in accounting and financial management expertise. All independent non-executive Directors have confirmed their independence, as set out in Rule 3.13 of the Listing Rules, to the Company and the Board considers that all independent non- executive Directors have satisfied their independence of the Group.

## BOARD OF DIRECTORS *(Continued)*

### Directors' and Officers' Liabilities Insurance

The Company has arranged appropriate insurance cover for Directors' and officers' liabilities in respect of legal actions against Directors, officers and senior management of the Company arising out of corporate activities.

### Board Meetings

The Board meets regularly to discuss the overall strategy as well as the operation and financial performance of the Group, in addition to the meetings for reviewing and approving the Group's annual and interim results. The Directors had participated in the Board meetings as indicated below. For those Directors who could not attend these meetings in person, they participated through electronic media.

The company secretary of the Company (the "**Company Secretary**") assists the Chairman in preparing the agenda of the meetings and each Director may request to include any relevant matters on the agenda. Generally, at least 14 days' notice is given for the regular meetings by the Company. All substantive agenda items have comprehensive briefing papers, which are, in general, circulated three days before convening each Board meeting.

All Directors are able to seek advice and services from the Company Secretary on the Board procedures and all applicable laws, rules and regulations, and corporate governance matters. Draft minutes of Board meetings and meetings of the Board committees are circulated to all Directors for comment and approval as soon as practicable after the meetings. Minutes of Board meetings and meetings of Board committee are kept by the Company Secretary and all Board members are given a copy of the minutes for their record. Should a matter being considered involve a potential conflict of interest of a Director, the Director involved in the transaction would be requested to leave the boardroom and abstain from voting. The matter would be discussed and resolved by other Directors. Policy is in place that Directors, upon reasonable request, may seek independent professional advice on issues related to the Group's business at the Company's expenses. The Company Secretary has complied with Rule 3.29 of the Listing Rules in relation to the professional training requirements.

## BOARD OF DIRECTORS *(Continued)*

**Board Meetings** *(Continued)*

During the Reporting Period, the number of meetings, including Board meetings, Board committees' meetings and annual general meeting held and the attendance by each Director is as follows:

| | Meetings Attended | | | | | |
|---|---|---|---|---|---|---|
| | **Annual General Meeting** | **Extraordinary General Meeting** | **Board** | **Audit Committee** | **Remuneration Committee** | **Nomination Committee** |
| **Number of meetings held during the Reporting Period** | **1** | **1** | **5** | **2** | **1** | **1** |
| *Executive Directors* | | | | | | |
| Mr. Lin Caihuo | 1 | 1 | 5 | N/A | 1 | 1 |
| Mr. Wang Enguang | 1 | 1 | 4 | N/A | N/A | N/A |
| *Non-Executive Director* | | | | | | |
| Mr. Wang ShouLei | 1 | – | 5 | N/A | N/A | N/A |
| *Independent Non-Executive Directors* | | | | | | |
| Mr. Liu Yang | – | – | 5 | 2 | 1 | 1 |
| Mr. Lum Pak Sum | 1 | 1 | 5 | 2 | 1 | 1 |
| Ms. Wong Yan Ki, Angel(1) | 1 | – | 3 | 2 | – | – |

Note:

(1) resigned on 17 December 2017

Code provision A.6.7 of the CG Code stipulated that independent non-executive directors and other non-executive directors should attend general meetings to gain and develop a balanced understanding of the views of the Shareholders. One non-executive Director and two independent non-executive Directors, namely Mr. Wang Shou Lei, Mr. Liu Yang and Ms. Wong Yan Ki Angel were unable to attend the extraordinary general meeting of the Company held on 16 January 2018 and Mr. Liu Yang, the independent non-executive Director was unable to attend the annual general meeting of the Company held on 25 May 2018 due to their other business engagements.

## DIRECTORS' TERMS OF APPOINTMENT

All Directors are appointed for a term of three years and are subject to the requirement of retirement by rotation and re-election at the annual general meeting at least once every three years in accordance with the articles of association of the Company (the "**Articles of Association**").

## DIRECTORS' TRAINING

Revised Code Provision A.6.5 of the CG Code provides that Directors should participate in continuous professional development to develop and refresh their knowledge and skills. This is to ensure that their contribution to the Board remain informed and relevant.

All Directors are encouraged to participate in continuous professional development activities by ways of attending training and/or reading materials relevant to the Company's business or to the Directors' duties and responsibilities. A summary of professional training received by Directors for the Reporting Period according to the records provided by the Directors is as follows:

| | **Attending seminar(s)/ programme(s)/ conference(s) and/or reading materials relevant to the business or directors' duties** |
|---|---|
| Mr. Lin Caihuo | ✓ |
| Mr. Wang Enguang | ✓ |
| Mr. Liu Yang | ✓ |
| Mr. Lum Pak Sum | ✓ |
| Ms. Wong Yan Ki, Angel (resigned on 17 December 2018) | ✓ |

## BOARD DIVERSITY POLICY

During the Reporting Period, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. All Board appointments will be based on meritocracy, and candidates will be considered against selection criteria, having regard for the benefits of diversity on the Board.

Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, professional experience, skills and knowledge. The ultimate decision will be made upon the merits and contribution that the selected candidates will bring to the Board.

## DIVIDEND POLICY

The Company has adopted a dividend policy on payment of dividends. Depending on the financial conditions of the Company and the Group and the conditions and factors as set out in the dividend policy (including but not limited to the Group's financial results, cash flow position, business conditions and strategies, future operations and earnings, capital requirements and expenditure plans), dividends may be proposed and/or declared by the Board during a financial year and any final dividend for a financial year will be subject to the shareholders' approval.

## BOARD COMMITTEES

The Board has established three committees, namely the Audit Committee, Remuneration Committee and Nomination Committee with specific terms of reference.

### Audit Committee

The Audit Committee assists the Board in providing an independent view of the effectiveness of the financial reporting process, internal control and risk management system, to oversee the audit process and to perform other duties and responsibilities as assigned by the Board. The Audit Committee currently consists of three members. During the Reporting Period and as at the date of this report, the members of the Audit Committee were as follows:

Mr. Lum Pak Sum *(Chairman of the Committee)*
Mr. Liu Yang
Mr. Xu Changyin (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

Since the resignation of Ms. Wong Yan Ki, Angel as an independent non-executive Director of the Company on 17 December 2018, the Company only has two members in the Audit Committee and hence the number of the member of the Audit Committee have fallen below the minimum number required under Rule 3.21 of the Listing Rules.

Mr. Xu Changyin was appointed as an independent non-executive Director and the member of the Audit Committee on 16 March 2019. The Company currently has three members of the Audit Committee and hence the number of the member of the Audit Committee have fulfilled the minimum number required under Rules 3.21 of the Listing Rules.

The chairman of the Audit Committee is Mr. Lum Pak Sum, who possesses the appropriate professional accounting qualification and financial management expertise.

The terms of reference of the Audit Committee follow the code provisions set out in the CG Code and are available on the website of the Company and the Stock Exchange.

The Audit Committee held two meetings in 2018. Details of attendance of the meetings of the Audit Committee are set out above. The following matters were dealt with at the said meetings or by way of written resolutions:

— reviewing the consolidated financial statements for the year ended 31 December 2018 and the annual results announcement;

— reviewing the interim consolidated financial statements for the six months ended 30 June 2018 and the interim results announcement;

## BOARD COMMITTEES *(Continued)*

**Audit Committee** *(Continued)*

— reviewing the significant audit and accounting issues arising from the external auditor's audit;

— considering the appointment of the external auditor and their audit fees;

— meeting with the external auditor without the presence of management to discuss issues arising from the audits and any other matters the auditor might wish to raise;

— reviewing the development in accounting standards and the Group's response, including the preparation for adoption of Hong Kong Financial Reporting Standards;

— reviewing the Company's compliance with regulatory and statutory requirements; and

— reviewing the effectiveness of the internal control and risk management system.

The annual results for the Reporting Period have been reviewed by the Audit Committee before submission to the Board for approval.

**Remuneration Committee**

The Remuneration Committee currently consists of one executive Director and two independent non-executive Directors. During the Reporting Period and as at the date of this report, the members of the Remuneration Committee were as follows:

Mr. Liu Yang *(Chairman of the Committee)*
Mr. Lin Caihuo
Mr. Lum Pak Sum
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

The primary duties of the Remuneration Committee are to make recommendations to the Board on the Company's policy and structure for all remuneration of executive Directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration. They have the delegated responsibility to determine the remuneration packages of individual executive Directors and senior management of the Company. The terms of reference of the Remuneration Committee follow the code provisions set out in the CG Code and are available on the website of the Company and the Stock Exchange.

In order to attract and retain staff of suitable calibre, the Group provides a competitive remuneration package. This comprises salary and provident fund. Although the remuneration of these executives is not entirely linked to the profits of the Company or division in which they are working in, it is considered that, given the volatility of various businesses within the Group, this has contributed considerably to the maintenance of a stable, motivated and high-calibre senior management team in the Company.

## BOARD COMMITTEES *(Continued)*

**Remuneration Committee** *(Continued)*

During the Reporting Period, the Remuneration Committee held one meeting. Details of attendance of the meeting of the Remuneration Committee are set out above. The following matters were dealt with at the said meeting or by way of written resolutions:

— to review and discuss the remuneration packages for the Directors and senior management of the Company;

— to consider and approve the remuneration packages for the proposed Directors; and

— to review and approve the employees' salary increments proposal.

No member took part in voting on his own remuneration at the meeting.

The remuneration of members of the senior management (including all executive Directors) by band for the Reporting Period is set out below:

| Remuneration bands (HK$) | Number of person(s) |
|---|---|
| Below 1,500,000 | 3 |

**Nomination Committee**

The Nomination Committee currently consists of one executive Director and three independent non-executive Directors. During the Reporting Period and as at the date of this report, the members of the Nomination Committee were as follows:

Mr. Xu Changyin *(Chairman of the Committee)* (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel *(Chairlady of the Committee)* (resigned on 17 December 2018)
Mr. Lin Caihuo
Mr. Liu Yang
Mr. Lum Pak Sum

Since the resignation of Ms. Wong Yan Ki, Angel as an independent non-executive Director of the Company on 17 December 2018, there is a vacancy for the chairman of the Nomination Committee and hence the Company no longer fulfills the requirement of establishing a nomination committee chaired by the chairman of the Board or an independent non-executive Director under code provision A.5.1 of the CG Code contained in Appendix 14 to the Listing Rules.

Mr. Xu Changyin was appointed as an independent non-executive Director and the Chairman of the Nomination Committee on 16 March 2019. The Company have fulfilled the requirement of establishing a nomination committee chaired by the chairman of the Board or an independent non-executive Director under code provision A.5.1 of the CG Code contained in Appendix 14 to the Listing Rule.

## BOARD COMMITTEES *(Continued)*

**Nomination Committee** *(Continued)*

The primary duties of the Nomination Committee are to review the structure, size and composition of the Board, make recommendations to the Board on the appointment or re-appointment of Directors and assess the independence of independent non-executive Directors. The terms of reference of the Nomination Committee follow the code provisions set out in the CG Code and are available on the websites of the Company and the Stock Exchange.

In considering the new appointment or re-election of Directors, the Nomination Committee will take into consideration the expertise, experience and integrity of that appointee.

During the Reporting Period, the Nomination Committee held one meeting. Details of attendance of the meeting of the Nomination Committee are set out above. The following matters were dealt with at the said meeting or by way of written resolutions:

— to consider the proposed appointment of Directors;

— to assess the independence of the independent non-executive Directors;

— to consider the re-election of Directors; and

— to review the composition of the Board.

No member took part in voting on his re-election of Director at the meeting.

**Corporate Governance Functions**

The Board is also responsible for performing the corporate governance duties as set out below:

a. to develop, approve and review the Company's policies and practices on corporate governance;

b. to review the Company's overall corporate governance arrangements;

c. to review and monitor the training and continuous professional development of Directors and senior management;

d. to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

e. to develop, review and monitor the code of conduct and compliance (if any) applicable to the Directors and employees; and

f. to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

## CONTROL MECHANISMS

The Board acknowledges its responsibility in maintaining a sound and effective internal control and risk management systems for the Group to safeguard Shareholders' investments and assets of the Company at all times.

## RISK MANAGEMENT AND INTERNAL CONTROL

The Company conducts an annual review on whether there is a need for an internal audit department. Given the Group's simple operating structure, as opposed to a separate internal audit department, the Board is directly responsible for the establishment, maintenance and review of the Group's systems of internal controls and risk management throughout the Reporting Period and their effectiveness. The Company has engaged an external independent professional advisory firm (the "**Independent Advisor**") to review the effectiveness and adequacy of risk management and internal control systems for the Reporting Period so as to ensure the effectiveness and adequacy of risk management and internal controls systems. The Independent Advisor had reviewed and analysed all material controls of the Group, including financial, operational and compliance controls and their associated risks. The relevant reports from the Independent Advisor were presented to and reviewed by the Audit Committee and the Board. The internal audit service was also provided by the Independent Advisor.

The Board considered the risk management and internal control systems of the Group to be adequate and effective for the Reporting Period. The Board also conducted a review of the adequacy of resources, qualifications and experience of staff of the Group's accounting and financial reporting function, and their training programs and budget which are considered to be adequate for the Reporting Period.

The Board wishes to emphasise that risk management and internal control systems are designed to manage rather than eliminate risk of failure to achieve business objectives and can only provide reasonable and not absolute assurance against material misstatement or loss.

## PROCEDURES AND INTERNAL CONTROLS FOR THE HANDLING AND DISSEMINATION OF INSIDE INFORMATION

The Group strictly follows the requirements of the Securities and Futures Ordinance of Hong Kong (the "**SFO**") and the Listing Rules and ensures that inside information is disclosed to the public as soon as reasonably practicable unless the information falls within any of the safe harbours of the SFO. Before inside information is fully disclose to the public, such information is kept strictly confidential. In addition, the Group adopted the policy of disclosing relevant information only to appropriate staff within the Group.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The Directors acknowledge their responsibilities for the preparation of the consolidated financial statements of the Company for the Reporting Period and ensure that they are prepared in accordance with the statutory requirements and applicable accounting standards. The Directors also ensure the timely publication of the consolidated financial statements.

The statement of the external auditor of the Company with regard to their reporting responsibilities on the Company's consolidated financial statements, is set out in the Independent Auditor's Report on pages 50 to 56 of this annual report.

The Directors confirm that, to the best of their knowledge, having made all reasonable enquiries, they are not aware of any material uncertainties relating to events or conditions which may cause the Company not to continue as a going concern. Therefore, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements.

## AUDITOR'S REMUNERATION

For the Reporting Period, services provided to the Company by its external auditor, Cheng & Cheng Limited (2017: PricewaterhouseCoopers), and the respective fees paid were:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Audit services | **552** | 1,480 |
| Non-audit services | **–** | – |

## SHAREHOLDERS' RIGHTS

The general meetings of the Company provide an opportunity for communication between the Shareholders and the Board. Each general meeting, other than an annual general meeting, shall be called an extraordinary general meeting.

Pursuant to article 58 of the Articles of Association, any one or more Shareholders holding at the date of deposit of the requisition not less than one-tenth of the paid up share capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by depositing a written requisition to the Board or the Company Secretary, to require an extraordinary general meeting to be called by the Board for the transaction of any business specified in such requisition and such 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 may do so in the same manner, and all reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

Shareholders may at any time put forward their enquiries (including the procedures for putting forward proposals at general meetings of the Company) to the Board in writing through the Company Secretary whose contact details are as follows:

Yuhua Energy Holdings Limited
40/F, Sunlight Tower,
No. 248 Queen's Road East, Wanchai
Hong Kong

## PROCEDURES FOR PUTTING FORWARD PROPOSALS AT GENERAL MEETINGS BY SHAREHOLDERS

Pursuant to article 88 of the Articles of Association, no person other than a Director retiring at the meeting shall, unless recommended by the Directors for election, be eligible for election as a Director at any general meeting unless a notice signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose such person for election and also a notice signed by the person to be proposed of his willingness to be elected shall have been lodged at the head office or at the Registration Office provided that the minimum length of the period, during which such notice(s) are given, shall be at least seven (7) days and that (if the notices are submitted after the dispatch of the notice of the general meeting appointed for such election) the period for lodgment of such notice(s) shall commence on the day after the dispatch of the notice of the general meeting appointed for such election and end no later than seven (7) days prior to the date of such general meeting.

## INVESTOR RELATIONS AND COMMUNICATION WITH SHAREHOLDERS

The Board established a Shareholders' communication policy to ensure that Shareholders and potential investors are provided with ready, equal and timely access to information of the Company.

The Company has maintained a corporate website at www.yuhuaenergy.com through which the Company's updated financial information, business development, announcements, circulars, notices of meetings, press releases and contact details can be accessed by the Shareholders and investors.

The annual general meeting also provides an important opportunity for constructive communication between the Board and Shareholders. The Chairman, members of the Board and external auditor attended the annual general meeting held on 25 May 2018 to answer questions raised by the Shareholders.

## COMPANY SECRETARY

Ms. Wong Nga Yan resigned as the Company Secretary on 9 August 2018. Ms. Mak Po Man Cherie of SWCS Corporate Services Group (Hong Kong) Limited was appointed as the Company Secretary on 5 September 2018. Ms. Mak Po Man Cherie has confirmed that she received not less than 15 hours of relevant professional training during the year ended December 31, 2018.

## CONSTITUTIONAL DOCUMENTS

There has been no material change in the Company's constitutional documents during the Reporting Period.

## GOING CONCERN

The Company's consolidated financial statements for the year ended 31 December 2018 (the "**2018 Financial Statements**") have been prepared on a going concern basis. There are factors that indicated the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern. If the Group is unable to continue to operate as a going concern, adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The actual or potential effects of these adjustments cannot be ascertained currently and therefore, have not been reflected in the 2018 Financial Statements, hence leading to the disclaimed opinion from the Company's auditors, Cheng & Cheng Limited (the "**Auditors**"), details of which were disclosed in the Company's annual results announcement dated 29 March 2019 (the "**2018 Results Announcement**"). The actual or potential effects of these adjustments depends on the outcome of the Group's plans and measures to improve its liquidity and financial position, and to remediate delayed repayments to financial institutions, which are set out in this report.

There was no different view between the Auditors and the Company's management. The audit committee has reviewed and agreed with the management's view.

The Group has undertaken a number of measures to improve the Group's liquidity and financial position, and to remediate delayed repayments to financial institutions, details of which were disclosed in the 2018 Results Announcements and this Report. Accordingly, the Directors consider the Group will be able to continue to operate as a going concern. If the Group's liquidity and financial position is improved during the next year, it is expected that the audit qualification in respect of going concern may be removed in the financial statements for the year ending 31 December 2019.

## IMPAIRMENTS OF TRADE AND OTHER RECEIVABLES

The directors of the Company (the "**Directors**") were unable to provide to the Auditors with satisfactory information to form a reasonable judgement on the recoverability of the relevant trade and other receivables. The Auditors could not assess whether the amounts of impairment and carrying amounts of trade receivables and prepayments recognised by the Group were fairly stated in the 2018 Financial Statements. Consequently, the Auditors were unable to determine whether any adjustment to these amounts was necessary, and hence the actual or potential impact on the Company's financial position cannot be ascertained. Details of the disclaimed opinion of the Auditors were disclosed in this report.

When assessing the recoverability of the trade receivables from 深圳市前海懷德石油化工有限公司 (Shenzhen Qianhai Huaide Petrochemical Co. Ltd.*) ("**Qianhai Huaide**"), the Directors have considered that to their best knowledge, Qianhai Huaide was still maintaining normal operation and based on the management's communication with Qianhai Huaide, it is willing to settle the trade receivables.

When assessing the recoverability of the prepayment to 上海寶塔石化有限公司 (Shanghai Baota Petrochemical Co., Ltd*) ("**Shanghai Baota**"), the Directors have considered that (i) it is a subsidiary of Baota Petrochemical Group Co. Ltd. ("**Baota Petrochemical Group**"), a large private enterprise which ranked 98th among the top 500 private enterprises and ranked 24th among the top 500 petrochemical companies in the PRC in 2017. As at 31 December 2017, the total assets of Baota Petrochemical Group amounted to approximately RMB63.7 billion and its debt-to-asset ratio was approximately 49.3%; and (ii) based on the best knowledge of the Directors, Baota Petrochemical Group is still maintaining normal business operation as at the date hereof, and that under the administration of the local government and regulatory authority, Baota Petrochemical Group is endeavouring to obtain financing to settle its bills. 張家港保税區寶塔石化有限公司 (Zhangjiagang Free Trade Zone Baota Petrochemical Co., Ltd*) ("**Zhangjiagang Baota**") is a wholly-owned subsidiary of Shanghai Baota. The Group purchased fuel oil from Shanghai Baota and sold petroleum coke to Zhangjiagang Baota.

In view of the above, the Directors considered there is no evidence that the Group would be unable to recover any of the outstanding receivables and that there is equal chance the debts from Qianhai Huaide, Zhangjiagang Baota and Shanghai Baota can or cannot be recovered and therefore, determined that impairment provision should be made for 50% of the trade receivables and repayments from each of the respective entities.

When assessing the recoverability of the trade receivables of 上海兆邦石油化工有限公司 (Shanghai Zhaobang Petrochemical Co. Ltd.*) ("**Shanghai Zhaobang**"), the Directors have considered that Shanghai Zhaobang is a company under the State Council and has issued a letter to the Group committing to repay the debts by 31 December 2019. Accordingly, the Directors are of the view that there is a high chance that the trade receivables from Shanghai Zhaobang will be recovered and therefore, no impairment had been made on such balance.

The audit committee has reviewed and agreed with the management's position in respect of the amounts of impairment provision made.

There was no different view between the Auditors and the Company's management in respect of the impairment provision made. Notwithstanding, the Auditors did not have enough information to assess whether the amounts of impairment and carrying amounts of trade receivables and prepayments recognised by the Group were fairly stated in the 2018 Financial Statements, leading to the disclaimed opinion.

If the trade receivables and prepayments are subsequently recovered or there are sufficient and appropriate audit evidence to support the expected timing and amounts of settlements from the relevant entities to the satisfaction of the Auditors prior to 31 December 2019, the audit qualifications in respect of impairment of trade and other receivables may be removed in the Company's financial statements for the year ending 31 December 2019.

## LIMITATION OF SCOPE TO ACCOUNTING BOOKS AND RECORDS OF THE DISCONTINUED OPERATIONS

The discontinued operations — speaker manufacturing segment (the "**Disposal Group**") was sold to an independent third party (the "**Purchaser**") in June 2018 while the Auditors were appointed in February 2019. At the time the Auditors were appointed, the Disposal Group has been taken over by the Purchaser, and the management of the Purchaser refused to provide the books and records prior to the disposal of the Disposal Group for the Auditors' inspection. Accordingly, the Auditors were unable to access the complete set of accounting books and records of the Disposal Group and to obtain sufficient supporting information to carry out audit procedures to assess whether the relevant financial figures included in the 2018 Financial Statements were fairly stated. Accordingly, the actual or potential impact on the Company's financial position cannot be ascertained. However, the Directors consider that the uncertainties in respect of such audit qualification will not have a long term impact on the Group's financial position.

There was no different view between the Auditors and the Company's management. The audit committee has reviewed and agreed with the management's view.

The Auditors were unable to obtain sufficient supporting documentation and explanations to carry out audit procedures relating to (i) the opening balances (as at 1 January 2018) of total assets and liabilities of the Disposal Group of approximately HK$228.0 million and HK$186.0 million respectively; (ii) the profit of approximately HK$1.2 million for the period from 1 January 2018 to 4 June 2018 (effective date of the disposal); and (iii) the deconsolidated assets and liabilities of the Disposed Group as at 4 June 2018 of approximately HK$176.0 million and HK$144.0 million respectively. If the books and records of the Disposal Group prior to the disposal was able to be inspected by the Auditors by next year's audit, the audit qualification may be removed in the Company's financial statements for the year ending 31 December 2019. Otherwise, audit qualification relating to the 2018 comparative figures will still be issued in the financial statements for the year ending 31 December 2019. However, the audit qualification will be removed in the financial statements for the year ending 31 December 2020 as the figures of the disposal in 2018 will not appear in the financial statements for the year ending 31 December 2020.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

This report was prepared in accordance with the "Environmental, Social and Governance Reporting Guide" ("Guide") set out in Appendix 27 to the Listing Rules of the Hong Kong Stock Exchange ("Stock Exchange"), which discloses our practices and performance over the issue of sustainable development in a transparent and open manner, in order to increase our stakeholders' confidence in and understanding of the Group.

All the information contained herein reflects the performance of the Group in environmental protection and social responsibility from 1 January 2018 to 31 December 2018. The Group will publish an annual Environment, Social and Governance ("ESG") Report on a regular basis, which will be available for public inspection at any time, so as to continuously enhance the transparency of information disclosure.

### Scope of the Report

The report focuses on the operation of the Group at its principal place of business, that is, the operations relating to energy trading business at the Head Office in Xiamen and the oil tanker transportation business at the Shanghai office, whereas other businesses, such as the speaker units business, are not included[1].

### Reporting Standards

As mentioned above, this report was prepared in accordance with the Guide published by the Stock Exchange. It summarizes the performance of the Group in the ESG aspects in a simplified manner. The information contained herein was derived from the official documents and statistics of the Group, and consolidated and summarized using the information on monitoring, management and operations provided by the members of the Group in accordance with the relevant policies of the Company. This report was prepared in both Chinese and English and is available on the Group's website www.yuhuaenergy.com. In the event of any conflict or inconsistency between the Chinese and English versions, the Chinese version shall prevail.

**Feedback**

**Our continuous improvements rely on your valuable opinions on the contents and presentation of this Report. If you have any questions or suggestions regarding this report, you are welcome to email us at info@yuhuaenergy.com, to help us improve ESG performance continuously.**

1 This Report covers the wholly-owned subsidiaries of the Group, namely Yuhua Energy Holdings Group (Fujian) Co., Ltd.* (裕華能源控股集團(福建)有限公司) (Formerly known as Fuhua (Fujian) Energy Co., Ltd.* (前稱富華(福建)能源有限公司)), Qianhai Yuhua Energy (Shenzhen) Co., Ltd.* (前海裕華能源(深圳)有限公司), Yuhua Tankers Corporation Limited (裕華船務有限公司) and Yuhua Energy (Xiamen) Co., Ltd.* (裕華能源(廈門)有限公司).

* *For identification only*

## STAKEHOLDERS COMMUNICATIONS

The Stock Exchange proposed four reporting principles in the Guide, including Materiality, Quantitative, Balance and Consistency, as the basis for the preparation of an ESG Report. As stated by the Stock Exchange, stakeholder engagement is a widely-employed method for assessing materiality. By communicating with the stakeholders, corporations are able to understand their wide ranging opinions, and identify crucial environmental and social issues.

For the Group, stakeholders refer to groups and individuals who have significant influence over the Group's business, or those who may be influenced by the Group's business. The Group's stakeholders include not only internal staff, management and directors, but also external customers, business partners, investors, regulators and various community groups. In the past year, we communicated with key stakeholders in various ways. In the preparation of this report, the Group engaged a professional consulting firm to conduct a substantive analysis by interviewing with the management, and incorporating the advices of professional consultants to clarify important reporting issues and to determine the direction of the Group's sustainable development.

## METHODS OF COMMUNICATIONS WITH THE STAKEHOLDERS DURING THE REPORTING PERIOD

**Internal stakeholders**

- Directors of the Company
- The Management
- Executive officers
- General staff

**External stakeholders**

- Shareholders
- Banks

**Methods of communications:**
Meetings, emails, teleconferences, interviews, trainings, annual and extraordinary general meetings and annual reports

The operations of the Group are affecting different stakeholders, while stakeholders in turn have various expectations towards the Group. Looking ahead, for a more refined substantive analysis, the Group will continuously strengthen its communications with stakeholders, and extensively collect their opinions in numerous ways. In the meantime, the Group will also enhance the reporting principles in terms of quantitative, balance and consistency, in order to define the contents in the report and the presentation of information in a way that is more likely to meet stakeholders' expectations.

## EFFICIENT USE OF RESOURCES

The Group conducts its energy trading business mainly in the PRC, and this business has contributed significantly to the Group's revenue. However, given the possibility that regulators will impose resource tax and consumption tax on fossil fuels or adopt other regulatory measures to reduce and eventually terminate the use of fossil fuels, the Group's operation may have to face the threat of increasing cost. In light of this, the Group is gradually switching to a low-carbon business model and exploring other sustainable investment opportunities.

In addition to adjusting its business development strategy, the Group places equal emphasis on applying green office practices in our daily operations. One of the resource consumptions that is most relevant to the operations in the Head Office is the use of electricity. Under the "Office Management Regulations of the Group", energy conservation is set as one of the disciplinary requirements that employees are expressly required to turn off idling lights, computers, air conditioners and other electrical appliances to reduce energy consumption.

| **Description of resource consumption/ emissions** | **Unit** | **Total amount in 2018** | Total amount in 2017 | **Changes** | **Unit** | **Total amount in 2018** | Total amount in 2017 | **Changes** |
|---|---|---|---|---|---|---|---|---|
| Electricity | KWh | **8,412** | 30,928 | Decrease by 22,516 | Per employee/ KWh | **561** | 1,190 | Decrease by 629 |

Another resource heavily consumed by the Group in office operations is paper. The Group encourages employees to curb paper consumption by establishing the "Office Management Regulations of the Group on Reducing Paper Consumption" and by posting reminders in the offices. The Regulations specify the methods used to reduce office paper consumption, including double-sided printing, network file transmission whenever possible, and font and page margin resizing so as to encourage employees to develop a habit of using less papers in their daily routines. In addition to cutting down waste at source, the Group requires that recycled paper is used for printing name cards or envelops whenever possible. The Group also puts recycling bins in the office to recycle paper that is not fit for use. To ensure that the Regulations are properly observed, the Group has designated employees to be in charge of the management of paper use so as to avoid wasting resources.

## EFFICIENT USE OF RESOURCES *(Continued)*

| Description of resource consumption/ emissions | Unit | Total amount in 2018 | Total amount in 2017 | Changes | Unit | Total amount in 2018 | Total amount in 2017 | Changes |
|---|---|---|---|---|---|---|---|---|
| Paper | kilogram | **250** | 241 | Increase by 9 | Per employee/ kilogram | **16.7** | 9.3 | Increase by 7.4 |

The efficient use of water resources is one of the Group's initiatives to promote resource conservation, in addition to the saving of electricity and paper. With the formulation of the "Pantries Management Regulations" and the posting of reminders, employees are encouraged to conserve water. The Group's daily operations do not involve a large amount of pollutants such as exhaust gas emissions and wastewater discharge. No non-compliance cases involving the generation of hazardous waste or related to emissions were found during the Reporting Period.

| Description of resource consumption/ emissions | Unit | Total amount in 2018 | Total amount in 2017 | Changes | Unit | Total amount in 2018 | Total amount in 2017 | Changes |
|---|---|---|---|---|---|---|---|---|
| Water | cubic meter | **568** | 360 | Increase by 208 | Per employee/ cubic meter | **37.9** | 13.8 | Increase by 24.1 |
| Non-hazardous waste — sewage and solid waste in offices | mt | **289** | 289 | Unchanged | Per employee/mt | **19.3** | 11.1 | Increase by 8.2 |

| Description of GHG emissions | Unit | Total amount in 2018 | Total amount in 2017 | Changes |
|---|---|---|---|---|
| Range 1 — direct emissions | mt | **298** | 618 | Decrease by 320 |
| Range 2 — indirect emissions (electricity) | mt | **7** | 28 | Decrease by 21 |
| Range 3 — Other indirect emissions (employees taking business trips by planes) | mt | **0** | 37 | Decrease by 37 |
| Total emissions | mt | **305** | 683 | Decrease by 378 |
| Total emissions density — by area | Per square meter/mt | **0.04** | 0.1 | Decrease by 0.06 |
| Total emissions density — by employee | Per employee/mt | **20.3** | 26.3 | Decrease by 6 |
| Indirect emissions density — by area | Per square meter/mt | **0.001** | 0.004 | Decrease by 0.003 |
| Indirect emissions density — by employee | Per employee/mt | **0.5** | 1.1 | Decrease by 0.6 |

## EFFICIENT USE OF RESOURCES *(Continued)*

The Group's core businesses, i.e. energy trading and oil tanker transportation businesses, are closely related to the environment and natural resources. The Group will continue to incorporate environmental and social considerations into its products and services to explore business opportunities for sustainable development.

## STRICT MONITORING OF SUPPLY CHAIN

In a globalized economy, business outsourcing is a common practice of companies. However, outsourcing does not mean that a company can escape its responsibilities or risks arising from poor ESG performance. The Group realizes that we should play a role in every stage of the entire life cycle of its products and services, and that the proper management of the supply chain is critical for the Group to maintain its reputation, ensure business sustainability, and manage operating costs.

The Group has established a supply chain management mechanism, which takes quality, capability, service, environmental protection and work safety as prerequisites for the selection of suppliers. Before engaging new suppliers, staff members of relevant departments are required to examine their qualifications and complete a "Supplier Examination Form". Whether the supplier is subject to any complaint, punishment or legal dispute is all taken into consideration. Only institutions that meet all the requirements upon examination can be selected by the Group as its qualified service providers.

The Group maintains a long-term cooperative relationship with key suppliers at strategic level, establishes supplier profiles and assesses the performance of each supplier. In its day-to-day operations, the Group meets with the suppliers on a regular basis to acquire a better understanding of their operations and share industry updates and market information, in order to ensure a smooth exchange of information for timely management. In the future, the Group will consider incorporating environmental and social factors into its supply chain management, requiring our business partners to pay more attention to their performance in sustainable development.

Amid fierce competition in the current market environment, customers have become increasingly demanding on products and services. Moreover, the Group realizes that customers are very concerned about the quality of energy products provided by the Group. The development of the oil tanker transportation auxiliary services can both increase revenue and provide better services directly to meet the needs of customers. In this way, we can achieve a win-win situation. As an energy trader, the Group ensures that the quality of all of the products it purchases and sells complies with international and Chinese laws and regulations, while as a tanker transporter, it ensures that its transportation services are safe and punctual.

The quality and transportation of all oil products purchased and sold by Yuhua Energy comply with international and domestic laws and regulations, including environmental protection related regulations. Yuhua Energy provides a commodity inspection report issued by SGS to ensure the quality of the oil products. As oil products are dangerous goods under statutory regulations, the Group is particularly concerned about safe operations in such processes as loading, transporting and warehousing during trading. Pursuant to the "Regulations on the Safe Management of Hazardous Chemicals", oil products are properly stored in dedicated warehouses, premises or storage rooms equipped with fire-extinguishing facilities as well as communication and alarm devices in accordance with fire control regulations to prevent accidents. Furthermore, the "Training for Personnel-in-charge and Safety Managers on Hazardous Chemicals" are organized annually, and examinations and tests are conducted after these training programmes to ensure that employees have a good grip of the procedures and practices for handling dangerous goods, so that they can react instantly in case of an accident. No non-compliance cases involving product liability were found during the Reporting Period.

## STRICT MONITORING OF SUPPLY CHAIN *(Continued)*

The Group believes that operation in good faith is not only a foundation for corporate social responsibility, but also a cornerstone of corporate competitive advantage and on-going operations. In addition to the compliance with the Company Law, the Criminal Law and the Anti-money Laundering Law of the PRC (《中華人民共和國反洗錢法》), the Group has also developed the "Anti-Corruption and Anti-commercial Bribery Management System of Yuhua Energy" which lays down clearly defined duties and code of conduct for the management, procurement personnel, sales personnel, accountants and cashiers respectively. The Group has a whistle-blowing mechanism in place to ensure that reported cases are submitted to the head of responsible departments, who shall keep the information confidential and earnestly handle any alleged cases. There were no cases of corruption involving the Group and its employees during the Reporting Period.

## COMPREHENSIVE EMPLOYMENT SYSTEM

Staff are the most valuable asset of the Group and the cornerstone of the growth of a business. The remunerations and benefits provided by the Group are in compliance with laws and regulations in China, and are no less than the statutory minimum wages under any circumstances. With a commitment to the philosophy of "maintaining balance between employee benefits and shareholder interests", the Group provides competitive overall remunerations for its employees. After one year of service with the Group, employees will be assessed in terms of their capabilities and performances, and provided with opportunities for salary raise or promotion if appropriate as an incentive to attract and retain outstanding and competent staff to boost the sustainable development of the Company. With respect to employee benefits, the Group treats every employee equally, regardless of their ranks. So far, the Group has not developed any internal policies relating to equal opportunities or anti-discrimination. However, the Group will consider optimizing its systems gradually in the near future to provide a more equitable work environment for its employees.

The Group is committed to create an environment where our staff can strike a work-life balance. In addition to strictly abiding by the national requirements for employees' working hours and providing employees with statutory holidays, the Group also grants extra holidays to employees to meet the needs of their personal life. For example, employees who have served the Group for over two years are entitled to paid maternity leave. No non-compliance cases involving employment and labor practices were found during the Reporting Period.

### Summary of Employment Performance Indicators

| | Aged under 30 | | Aged 30-50 | | Aged over 50 | | Total number of employees | | Male to female ratio | | Changes |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Gender** | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | |
| Male | **2** | 2 | **4** | 8 | **4** | 5 | **10** | 15 | **2:1** | 1.36: 1 | Decrease by 5 |
| Female | **1** | 3 | **4** | 8 | **0** | 0 | **5** | 11 | | | Decrease by 6 |

**Ratio of Average Remuneration between Male and Female**

| **2018** | 2017 |
|---|---|
| **2.16** | 1.32: 1 |

## COMPREHENSIVE EMPLOYMENT SYSTEM *(Continued)*

**Summary of Employment Performance Indicators** *(Continued)*

| Resigned Employees | Aged under 30 | | Aged 30-50 | | Aged over 50 | | Total number of resigned employees | | Percentage of resigned employees to total number of employees | |
|---|---|---|---|---|---|---|---|---|---|---|
| | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 | **2018** | 2017 |
| Male | **0** | 0 | **4** | 1 | **1** | 0 | **5** | 1 | **44%** | 0.04% |
| Female | **2** | 0 | **4** | 0 | **1** | 0 | **7** | 0 | | |

There are no positions carrying high-risk jobs at the Head Office and Shanghai Office of the Group. Nevertheless, the Group prescribes rules on safety management in the "Employee Manual", aiming at creating a safe and comfortable work environment for our employees. Fire extinguishers are also placed in the office, which are checked regularly on a monthly basis. Employees are provided with training on how to use fire extinguishers so as to raise their safety awareness and their capabilities to handle emergency during evacuation. No non-compliance cases involving health and safety were found during the Reporting Period.

**Summary of Health and Safety Performance Indicators of Employees**

| Gender | Number of work injury cases | Rate of work injuries (per thousand Employees) | Number of working days lost due to work injuries | Number of working days | Percentage of working days lost due to work injuries | Total hours of absence | Total working hours | Total absence rate |
|---|---|---|---|---|---|---|---|---|
| | | | | **2018** | | | | |
| Male | **0** | **0** | **0** | **2,338** | **0%** | **48** | **18,654** | **1%** |
| Female | **0** | | **0** | **1,722** | | **378** | **13,398** | |
| | | | | 2017 | | | | |
| Male | 0 | 0 | 0 | 3,900 | 0% | 0 | 31,200 | 0% |
| Female | 0 | | 0 | 2,860 | | 16 | 22,880 | |

## COMPREHENSIVE EMPLOYMENT SYSTEM *(Continued)*

**Summary of Health and Safety Performance Indicators of Employees** *(Continued)*

Outstanding and competent employees are the most valuable key to our success. We treat them as our important assets. It is the Group's belief that the cultivation and retention of outstanding and competent employees is the key to ensuring our development and strengthening our competitiveness. The Group considers the staff as its strategic partners, and provides staff training and development plans in a systematic way. Each of our employees caters for the actual needs of different departments and roles, but to enable them to be capable of working in all aspects, the Group provides training programmes for recruits in many areas, including induction training, corporate culture and system learning, introduction to product knowledge and purposes of all product lines, anti-corruption and anti-commercial bribery management, office management, and safety, so as to enable employees to keep improving in all areas, including job skills and professional capabilities.

**Our Training Programs During 2018**

| Training Program/Content | Trainees | Form of Training | Time |
|---|---|---|---|
| New employee training | New employees | Internal training | As needed |
| Safety production laws and regulations | All personnel | Internal training | January to March 2018 |
| Safety management of hazardous chemicals | All personnel | Internal training | April 2018 |
| Safety warnings and signs | All personnel | Internal training | May 2018 |
| Training on Regulations on Anti-Corruption and Anti-Commercial Bribery Management | All personnel | Internal training | June 2018 |
| Popularization of Laws into Enterprises Series Talks in Haicang District | All personnel | Talks | July 2018 |
| Fire and Explosion Protection Knowledge | All personnel | Internal training | August 2018 |
| Hazard Source Identification Training | All personnel | Internal training | September 2018 |
| Basic Knowledge of Fire Extinguishing | All personnel | Internal training | October 2018 |
| Fire Escape Skills | All personnel | Internal training and drill | November to December 2018 |

**Our Training Programs During 2017**

| Training Program/Content | Trainees | Form of Training | Time |
|---|---|---|---|
| New employee training | New employees | Internal training | As needed |
| Introduction to product knowledge, features and safety for all product lines | All personnel | Internal training | Monthly |
| Anti-corruption and anti-commercial bribery management | All personnel | Internal training | May |
| Corporate culture and system learning | All personnel | Internal training | Monthly |
| Office Management and Safety | All personnel | Internal training and drill | Monthly |

## COMPREHENSIVE EMPLOYMENT SYSTEM *(Continued)*

The Group recognizes that employing child labor and forced labor is a violation of basic human rights and international labor conventions, and poses threats to the sustainable development of the society and economy. Because of this, the Group abides by the Labor Law of the People's Republic of China strictly. It will only enforce the requirements in a standard labor contracts instead of setting restrictions unfairly on the employment relations between any employee and the Company in any way. The use of child labor is prohibited as well. Subject to the relevant laws and regulations, employees have the right to terminate labor contracts at liberty. No non-compliance cases involving the use of child labor and forced labor were found during the Reporting Period.

## COMMUNITY INVESTMENT

The Group formulates the Corporate Social Responsibility Policy, which is regarded as an important part of the enterprise management strategy. It internalizes the concept into the value culture of the enterprise, actively plays the role of corporate citizen, strictly enforces corporate governance, implements employee care, environmental protection and social welfare, maintains a sound corporate physique, promotes brand value and sustains the development of the enterprise.

Along with escalating market concerns about corporate behavior and the "Social License to Operate", the pursuit of short-term and maximum financial performance to reward shareholders is no longer the only goal of business management. The Group cherishes its harmonious and inclusive relationship with the communities where it has a presence. It offers support to a variety of programs in the communities, including academic research and education, community environmental protection and construction as well as cultural exchange. It also encourages its employees to participate in volunteer services to show their care for the society through actions.

As a proactive corporation, the Group has a profound understanding in the importance of meeting of different stakeholders expectations as well as the expectations of the communities where the Group operates. In terms of the long-term development, the Group, therefore, places emphasis on striking a balance between the interests of shareholders and the interests of all other stakeholders, and tries to find out what these communities need so as to contribute to the sustainable development of these communities.

# Biographical Details of Directors

## BOARD OF DIRECTORS

### Executive Directors

**Mr. Lin Caihuo**, aged 47, has been the Chairman of the Board and an executive Director since November 2014. He also serves as a member of each of the Remuneration Committee and the Nomination Committee and is an authorised representative of the Company. He has been engaging in the business of trading, warehousing, transporting and distributing oil products since 2003 and has gained an extensive experience in the industry. He has also been an executive director and the general manager of Fujian Yuhua Petrochemical Company Limited* (福建裕華石油化工有限公司) since February 2003, Xiamen Oceanstar Shipping Company Limited* (廈門海之星航運有限公司) since July 2010, Fujian Yuhua Energy Company Limited* (福建裕華能源有限公司) since April 2013, Fujian Yuhua Group Limited* (福建裕華集團有限公司) since April 2013, Fujian Yuhua Property Management Limited* (福建裕華物業管理有限公司) since February 2014 and Fujian Yuhua Shipping Company Limited* (福建裕華船務有限公司) since March 2014.

Mr. Lin has been the vice president of Fujian Oil and Gas Association* (福建省油氣商會副會長) since 2014. In July 2014, he was elected as the executive vice president of the Chamber of Commerce of Zhangzhou Xiamen* (廈門市漳州商會常務副會長). Mr. Lin was appointed as a representative of Fujian Province at Thirteenth People's Congress* (福建省第十三屆人民代表大會代表) and also a representative of Zhangzhou City at Fifteenth and Sixteenth People's Congress* (漳州市第十五屆及第十六屆人民代表大會代表) and was the honorary president of the Chamber of Zhangzhou oil* (第三屆漳州市石油商會名譽會長). In addition, Mr. Lin was appointed as the first vice president of the Federation of Enterprises and Entrepreneurs of Dongshan County* (第一屆東山縣企業與企家聯合會副會長) and the vice chairman of the Ninth Dongshan County Chamber of Commerce* (第九屆東山縣工商聯合會(商會)副主席). Since August 2012, he has been the honorary president of Charity of Dongshan County* (東山縣慈善總會榮譽會長). He was an executive director of Sino Haijing Holdings Limited (stock code: 1106) during the period from 10 July 2014 to 2 November 2014, a company whose shares are listed on the Main Board of the Stock Exchange.

**Mr. Wang Enguang**, aged 68, has been an executive Director since December 2014. He is also the authorised representative of the Company. He completed Basic Courses for Officials of Chinese Government and Communist Party* (黨政幹部基礎專科) from Liaoning Radio and TV University* (遼寧廣播電視大學) in 1986. For the period from 1972 to 1999, he worked in Liaoning Petrochemical Fiber Company* (遼寧石油化纖公司). He was a vice-manager of raw material supply before leaving. Mr. Wang began serving PetroChina Company Limited* (中國石油天然氣股份有限公司) in 1999 until retirement in July 2010. Before his retirement, he was a manager of the sales company in Jiangxi, the PRC. Mr. Wang has decades of rich experience in the areas of sales and management.

## BOARD OF DIRECTORS *(Continued)*

### Non-Executive Director

**Mr. Wang ShouLei**, aged 36, has been a non-executive Director since April 2017. He graduated with a master's degree in Economics from Shanghai International Studies University. From December 2012 to June 2014, Mr. Wang was the Eastern China regional general manager and an executive director of the investment banking division of Zhongtai Financial International Limited (中泰金融國際有限公司) ("**Zhongtai International**"), the holding company of a substantial shareholder of the Company. He is mainly responsible for investment banking operations in overseas markets and has comprehensive experience in IPO, public bond issue, mergers and acquisitions, structured financing and independent financial advisor. He was the managing director of the global capital markets department of Zhongtai International from December 2014 to November 2017. Mr. Wang has also been a non-executive director of Starlight Culture Entertainment Group Limited, whose shares are listed on the Main Board of the Stock Exchange (stock code: 01159), since August 2017. Since November 2017, he has been the managing director and head of debt capital market, managing director and head of structured finance of Zhongtai International.

### Independent Non-Executive Directors

**Mr. Liu Yang**, aged 37, has been an independent non-executive Director since March 2015. He also serves as the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Board. He graduated from Xian Jiaotong University with a bachelor degree in bio-medical engineering in July 2004 and graduated from Xiamen University with a master degree in bio- medical engineering in June 2007. He was the project manager and senior manager at GF Securities Company Limited (Guangzhou)* (廣發證券股份有限公司(廣州)) from July 2007 to April 2011. He was also the business director of Industrial Securities Company Limited (Fuzhou)* (興業證券股份有限公司(福州)) and independent non executive director of Sino Haijing Holdings Limited (stock code:1106) (whose shares are listed on the Main Board of the Stock Exchange) from April 2011 to May 2015 and from 12 August 2014 to 3 November 2014 respectively.

Mr. Liu was a general manager of Fujian Fu Xing Industrial Equity Investment Management Limited* 福建省福能興業股權投資管理有限公司 (Formerly known as Fujian Funeng Wuyi Equity Investment Management Limited* 福建省福能武夷股權投資管理有限公司） from May 2015 to May 2017. Since May 2015, he has been an independent director of Xiamen Academy of Building Research Group Co., Ltd* (建築科學研究院集團股份有限公司), whose shares are listed on the Small and Medium Enterprise Board of the Shenzhen Stock Exchange. Since July 2017, he also has been an executive director of Tibet Universal Capital Investment Management Co. Ltd* (西藏禹澤投資管理有限公司).

## BOARD OF DIRECTORS *(Continued)*

**Independent Non-Executive Directors** *(Continued)*

**Mr. Lum Pak Sum**, aged 57, has been an independent non-executive Director since December 2014. He also serves as the chairman of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee. He obtained a master's degree in business administration from The University of Warwick in 1994 and a bachelor's degree in laws from University of Wolverhampton in 2002. He is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and The Association of Chartered Certified Accountants.

Mr. Lum was an independent non-executive director of Energy International Investments Holdings Limited (stock code: 353), Bestway International Holdings Limited (stock code: 718), Radford Capital Investments Limited (stock code: 901), Pak Tak International Limited (stock code: 2668), Sinogreen Energy International Group Limited (stock code:1159) and Asia Resources Holdings Limited (stock code: 899), whose shares are listed on the Main Board of the Stock Exchange, for the period from September 2005 to July 2011, from March 2010 to May 2013, from May 2010 to November 2013, from June 2014 to November 2014, from April 2009 to November 2014 and from November 2010 to January 2015, respectively. Mr. Lum was also a non-executive director of Orient Securities International Holdings Limited (stock code: 8001), whose shares are listed on the Growth Enterprise Market ("**GEM Board**") of the Stock Exchange, for the period from January 2014 to June 2015.

Since August 2007, January 2014, August 2016 and May 2015, Mr. Lum has been an independent non-executive director of Great China Properties Holdings Limited (stock code: 21), Beautiful China Holdings Company Limited (stock code: 706), Kwan On Holdings Limited (stock code: 1559), whose shares are listed on the Main Board of the Stock Exchange and i-Control Holdings Limited (stock code: 8355), whose shares are listed on the GEM Board of the Stock Exchange, respectively. He was appointed as an independent non-executive director of Anxian Yuan China Holdings Limited (stock code: 922) and S. Culture International Holdings Limited (stock code: 1255), whose shares are listed on the Main Board of the Stock Exchange in May 2017 and June 2017 respectively. He was the chief executive officer of Roma Group Limited (stock code: 8072), a company listed on the GEM Board of the Stock Exchange from June 2017 to October 2017. He was also appointed as an independent non-executive director of Pearl Oriental Oil Limited (stock code: 632), whose shares are listed on the Main Board of the Stock Exchange in December 2017, and resigned on 29 June 2018.

**Mr. Xu Changyin**, aged 35, was appointed as an independent non-executive Director of the Company on 16 March 2019. He also serves as the chairman of the Nomination Committee and a member of Audit Committee. Mr. Xu obtained a master's degree in finance from Shanghai University of Finance and Economics in June 2007 and a bachelor's degree in management from Yangzhou University in June 2005. Mr. Xu has worked as a part-time tutor of the Finance Department of Shanghai University of Finance and Economics since 2017. He worked in Industrial Securities Co. Ltd. from July 2007 to September 2016 and his last position was deputy general manager. He has been the vice president and vice chairman of Shanghai Huantao Investment Management Co., Ltd. since September 2016.

* *For identification purposes only*

# Report of the Directors

The Directors are pleased to present to the Shareholders their report together with the audited consolidated financial statements of the Group for the Reporting Period.

## PRINCIPAL ACTIVITIES

The principal activity of the Company is an investment holding. Particulars of the Company's principal subsidiaries are set out in Note 13 to the consolidated financial statements.

## RESULTS AND APPROPRIATIONS

The results for the Reporting Period are set out in the consolidated statement of profit or loss on page 53 of this Annual Report.

No interim dividend was paid during the Reporting Period. The Directors do not recommend the payment of final dividend for the Reporting Period.

## BUSINESS REVIEW

A fair review of the business of the Group during the Year and a discussion on the Group's future business development are set out in the section headed, "Management Discussion and Analysis" on pages 6 to 9 of this annual report. Discussions on the social, labour and environmental policies and performance are set out in the "Environmental, Social and Governance Report" on pages 25 to 33 of this annual report.

The above discussions form part of this directors' report.

## PRINCIPAL RISKS AND UNCERTAINTY

**Risk associated with financial instruments of the group**

The financial risk management objectives and policies of the Group are set out in Note 2 to the consolidated financial statements.

**Key sources of estimation uncertainty**

Details of the key sources of estimation uncertainty as at 31 December 2018 are set out in Note 4 to the consolidated financial statements.

## COMPLIANCE WITH LAWS AND REGULATIONS

Strenuous efforts are exerted to ensure compliance with the laws and regulations of the jurisdictions in which the Company operates.

In relation to human resources, the Group provides and maintains statutory benefits for its staff, including but not limited to entitlement to mandatory provident fund, basic medical insurance, work injury insurance, etc. staff is entitled to day-off on public holidays and maternity leave.

At the corporate level, the Group complies with the requirements under the Listing Rules and the Securities and Futures Ordinance, Cap. 571 of the laws of Hong Kong for, among other things, the disclosure of information and corporate governance, and the Group has adopted the Model Code for Securities Transactions by Directors of Listed Issuers set out in Appendix 10 to the Listing Rules.

## KEY RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

The Group is devoted to maintaining good relationship with its suppliers and supplying quality products and services to our customers. Further discussions on key relationships of the Group with employees, customers and suppliers are set out in the "Environmental, Social and Governance Report" on pages 25 to 33 of this annual report.

## RESERVES

Details of movements in the reserves of the Group during the Reporting Period are set out in the consolidated statement of changes in equity on page 57.

## DONATIONS

Crown Million Industries (International) Limited, a subsidiary of the Company which was disposed during the Reporting Period, donated HK$700,000, prior to disposal. Except for this donation, no charitable and other donations made by the Group during the Report Period.

## MATERIAL INVESTMENT AND ACQUISITION

Save as disclosed in this annual report, the Group had no significant investment and acquisition activities during the Reporting Period.

## BANK BORROWINGS

Details of the bank borrowings of the Group as at 31 December 2018 are set out in Note 27 to the consolidated financial statements.

## NON-COMPLIANCE WITH RULE 13.19 OF THE LISTING RULES

During the Year, the Group entered into several facilities letters and loan agreements (collectively, the "**Facility letters**") with several banks and a financial institution (collectively, the "**Financial Institutions**") which the Financial Institutions agreed to grant general facilities to the Group. As at 31 December 2018 and up to the date of this annual report, a total sum of loan principal of HK$204,738,000 (included in borrowings of the Group amounting to HK$396,532,000) and interest payable of HK$12,759,000 were not repaid in accordance with the scheduled payment dates. Our Group received a number of repayment demand letters from the Financial Institutions during the Year, in which at least a bank (the "**Bank**") was claiming for immediate repayment of its outstanding principal and accrued interest.

As set out in the demand letters of the Bank, if the outstanding principal and accrued interest is not repaid, legal proceedings may be instituted against the Group by the Bank in the courts in the PRC and Hong Kong.

As at the date of this annual report, the Group reached the settlements with the Bank in two civil proceedings in the PRC and new repayment schedules have been agreed between the Group and the Bank.

The Directors have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate delayed repayments to Financial Institutions, which are set out in note 2.1.2 to the consolidated financial statements. The Group is still in the process of active negotiation with the Financial Institutions in order to avoid further legal actions to be taken by them. Further announcement(s) will be made by the Company as and when necessary.

## PROPERTY, PLANT AND EQUIPMENT

Movements in property, plant and equipment during the Year and details of the Group's property, plant and equipment are set out in Note 14 to the consolidated financial statements.

## INVESTMENT PROPERTIES

Movements in investment properties during the Year and details of the Group's investment properties are set out in Note 15 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements during the Year in the share capital of the Company are set out in Note 22 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

Save as disclosed in this annual report relating to the "Share Option Scheme", no equity-linked agreements were entered into during the Reporting Period or subsisted at the end of the Year.

## PERMITTED INDEMNITY PROVISION

Pursuant to article 167 of the Articles of Association, subject to relevant laws, every Director shall be entitled to be indemnified and secured harmless out of the assets and profits of the Company against all actions, costs, charges, losses, damages and expenses which he/she may sustain or incur in or about the execution of the duties of his/her office or otherwise in relation thereto.

# Report of the Directors

## DIRECTORS

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

**Executive Directors**

Mr. Lin Caihuo *(Chairman)*
Mr. Wang Enguang

**Non-Executive Director**

Mr. Wang ShouLei

**Independent Non-Executive Directors**

Mr. Liu Yang
Mr. Lum Pak Sum
Mr. Xu Changyin (appointed on 16 March 2019)
Ms. Wong Yan Ki, Angel (resigned on 17 December 2018)

In accordance with Article 87, Mr. Liu Yang and Mr. Wang ShouLei shall retire from their office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting (the "**AGM**").

In accordance with Article 86(3), Mr. Xu Changyin, who was appointed as an independent non-executive Director on 16 March 2019, will hold office only until the AGM and, being eligible, offer himself for re-election at the forthcoming AGM.

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

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

As at 31 December 2018, the interests and short positions of each Director and CEO in the shares, underlying shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")) as recorded in the register required to be kept under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code were as follows:

| Name of Director | Capacity | Number of Shares held/ interested[1] | Total number of shares | Approximate percentage of the total issued Shares |
|---|---|---|---|---|
| Lin Caihuo ("**Mr. Lin**") | Beneficial owner | 1,821,053,112 | 1,821,053,112 | 58.85% |

Notes:

(1) Interests in shares stated above represent long positions.

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

## ARRANGEMENTS TO PURCHASE SHARES OR DEBENTURES

At no time during the Reporting Period, was the Company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire benefits by means of the acquisition of shares in or debentures of the Company or other body corporate.

## SHARE OPTION SCHEME

On 25 June 2005, a share option scheme (the "**Share Option Scheme**") was approved and adopted by the Shareholders, under which, options may be granted to any eligible persons (as defined in the Share Option Scheme) to subscribe for Shares subject to the terms and conditions stipulated in the Share Option Scheme. The Company has adopted the Share Option Scheme as an incentive to Directors and eligible employees. The Share Option Scheme has expired on 25 June 2015.

The subscription price for the ordinary shares under the Share Option Scheme shall be determined by the Board and shall not be less than that the highest of: (i) the closing price of the ordinary shares as stated in the Stock Exchange's daily quotations sheet on the date of offer of that grant, which must be a business day; (ii) the average of the closing prices per ordinary share as stated in the Stock Exchange's daily quotations sheet for the five business days immediately preceding the date of offer of that option; and (iii) the nominal value of the ordinary shares.

The total number of ordinary shares available for issue under the Share Option Scheme and any other schemes must not exceed 10% of the Shares in issue at the date of Shareholders' approval of the Share Option Scheme.

The total number of securities available for issue under the Share Option Scheme as at the date of this report was 123,200,000 Shares (following adjustment after Share Subdivision on 17 January 2018) which represents approximately 3.98% of issued share capital of the Company as at the date of this report. For details, please refer to the announcement of the Company dated 16 January 2018.

A summary of the share option scheme is set out in Note 24 to the consolidated financial statements. Details of the share options granted, exercised, lapsed and outstanding under the Share Option Scheme during the Reporting Period are as follows:

| | | | | | Number of share options | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Name | Date of grant (dd/mm/yyyy) | Exercise price HK$ | Vesting date (dd/mm/yyyy) | Exercisable period (dd/mm/yyyy) | As at 01/01/2018 | Granted | Exercised | Adjustment on share subdivision | Lapsed | As at 31/12/2018 |
| Eligible employees[(1)] | 19/6/2015 | 0.64125 | 19/06/2015 | 19/06/2015–18/06/2025 | 61,600,000 | – | – | 61,600,000 | – | 123,200,000 |

Note:

(1) Eligible employees are working under employment contracts that are regarded as "continuous contracts" for the purposes of the Employment Ordinance (Chapter 57 of the Laws of Hong Kong).

## SUBSTANTIAL SHAREHOLDERS' INTERESTS

As at 31 December 2018, according to the register kept by the Company under Section 336 of the SFO, the corporations or persons (other than a Director or CEO) had interests of 5% or more in the Shares or underlying Shares which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO were as follows:

| Name | Capacity | Number of Shares held[(1)] | Approximate percentage of the issued Shares |
|---|---|---|---|
| Lin Aihua ("**Ms. Lin**")[(2)] | Interest of spouse | 1,821,053,112 | 58.85% |
| Zhongtai International Strategic Investment Funds SPC (acting for and on behalf of Win Win Stable No. 1 Fund SP) ("**Zhongtai International Strategic**")[(3)(4)] | Person having a security interest in shares | 1,821,053,112 | 58.85% |
| Zhongtai International Asset Management Limited ("**Zhongtai International**")[(3)(4)] | Investment manager | 1,821,053,112 | 58.85% |

Notes:

(1) Interests in Shares stated above represent long positions.

(2) Ms. Lin is the spouse of Mr. Lin and therefore by virtue of the SFO, Ms. Lin is deemed or taken to be interest in all the Shares held by Mr. Lin.

(3) The 1,821,053,112 shares (which were beneficially owned by Mr. Lin) were initially charged in favour of Zhongtai Financial Investment Limited pursuant (中泰金融投資有限公司) to a share charge agreement dated 28 April 2017 and entered into between Mr. Lin and Zhongtai Financial Investment Limited. Subsequently, the share charge agreement was assigned to Zhongtai International Strategic pursuant to a deed of assignment dated 18 December 2018 and entered into between Zhongtai Financial Investment Limited as assignor and Zhongtai International Strategic as assignee.

(4) Zhongtai International is the fund manager of Zhongtai International Strategic and therefore by virtue of the SFO, Zhongtai International is deemed or taken to be interested in all the Shares held by Zhongtai International Strategic.

Save as disclosed above, as at 31 December 2018, no other person (other than a Director or CEO) had registered an interest or short position in the Shares, underlying Shares and debentures of the Company which fell to be disclosed to the Company under Divisions 2 and 3 of Part XV of the SFO.

## DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in the paragraph headed "Connected Transactions and Continuing Connected Transactions", there were no other transactions, arrangements or contracts that are significant in relation to the business of the Group to which the Company or any of its subsidiary was a party and in which a Director or his/her connected entity had a material interest, whether directly or indirectly, subsisted at any time during the Reporting Period.

## MANAGEMENT CONTRACTS

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

## RELATED PARTY TRANSACTIONS

Save as disclosed in the paragraph headed "Connected Transactions and Continuing Connected Transactions", the significant related party transactions that did not constitute connected transactions under the Listing Rules made during the Reporting Period were disclosed in Note 32 to the consolidated financial statements.

## COMPETING INTEREST

During the Reporting Period, Mr. Lin and his spouse had interests in the following business conducted through the companies named below:

| Name of company | Nature of interest | Description of business of the company |
|---|---|---|
| Fujian Yuhua Petrochemical Company Limited* (福建裕華石油化工有限公司) | Mr. Lin is the executive director and the general manager<br><br>Mr. Lin and his spouse indirectly hold 90% and 10% of the equity interest respectively | Petroleum product trade, storage, transportation and distribution business |
| Fujian Yuhua Energy Company Limited* (福建裕華能源有限公司) | Mr. Lin is the executive director and the general manager<br><br>Mr. Lin and his spouse indirectly hold 90% and 10% of the equity interest respectively | Wholesale and retail of dangerous chemicals, petroleum products, chemical products and machinery equipment leasing |
| Fujian Yuhua Group Limited* (福建裕華集團有限公司) | Mr. Lin is the executive director and the general manager<br><br>Mr. Lin and his spouse respectively hold 90% and 10% of the equity interest | Wholesale and retail of petroleum products, management of real estate investment, development, sales, rental, property management and equity investment, business consulting, and enterprise financial management consulting |
| Xiamen Oceanstar Shipping Company Limited* (廈門海之星航運有限公司) | Mr. Lin is the executive director and the general manager<br><br>Mr. Lin and his spouse indirectly hold 90% and 10% of the equity interest respectively | Coastal cargo transportation, inland cargo transportation, ship port services, ship management business and real estate development and operation |

Save as disclosed above, none of the Directors or their respective close associates (as defined in the Listing Rules) had an interest in a business, which competed or was likely to compete with the business of the Group during the Reporting Period.

## DISCLOSURE PURSUANT TO RULE 13.21 OF THE LISTING RULES

On 26 April 2017, the Company and Zhongtai Financial Investment entered into the subscription agreement (the "**Subscription Agreement**"), pursuant to which, the Company conditionally agreed to issue the notes with an aggregate principal amount of HK$100,000,000 with interest rate of 6% per annum, due in 2018 (which was subsequently extended to 28 October 2018 and further extended to 28 April 2019) (the "**Notes**") to Zhongtai Financial Investment and Zhongtai Financial Investment conditionally agreed to subscribe the Notes from the Company.

In connection with the Subscription Agreement, Mr. Lin, the executive Director, chairman and controlling Shareholder of the Company and Zhongtai Financial Investment entered into the share charge agreement (the "**Share Charge Agreement**") on 28 April 2017, whereby Mr. Lin agreed to charge 910,526,556 ordinary shares of HK$0.0025 (equivalent to 1,821,053,112 ordinary shares of HK$0.00125 after the Share Subdivision on 17 January 2018) (representing 58.85% of the issued share capital of the Company as at the date of this annual report) in favour of Zhongtai Financial Investment by way of a second-ranking charge.

It is an event of default under the conditions of the Notes if, among others, (i) Mr. Lin owns or beneficially owns less than 58.85% of the voting shares of the Company; (ii) Mr. Lin is no longer in a position to control the composition of a majority of the Board; or (iii) the shares of the Company charged under the Share Charge Agreement constitute less than 58.85% of the issued shares of the Company.

Upon occurrence of an event of default, the Notes shall become immediately due and payable in accordance with the conditions of the Notes, and Zhongtai Financial Investment is entitled to redeem all the Notes.

For further details, please refer to the announcement of the Company dated 26 April 2017.

## CHANGE IN INFORMATION OF DIRECTORS PURSUANT TO RULE 13.51B(1) OF THE LISTING RULES

Mr. Lum Pak Sum resigned as independent non-executive director of Pearl Oriental Oil Limited, a company listed on the main board of the Stock Exchange (Stock code: 632) on 29 June 2018.

Ms. Wong resigned as independent non-executive Director on 17 December 2018.

Save as disclosed in this annual report, there is no other information required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

## DIRECTORS' SERVICE CONTRACTS

No Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation (other than statutory compensation).

## REMUNERATION POLICY

The remuneration policy of the Group is set up by the Remuneration Committee on the basis of market trends and the individuals' merit, qualifications and competence.

The Remuneration Committee, having regard to the Company's operating results, individual performance and comparable market statistics, made recommendations to the Board for all remuneration of the executive Directors and senior management of the Company.

The Company has adopted a share option scheme as an incentive to Directors and eligible employees, details of the scheme are set out in Note 24 to the consolidated financial statements.

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

None of the Company or any of its subsidiaries had purchased, sold or redeemed any of its listed securities during the Reporting Period.

## PRE-EMPTIVE RIGHTS

There is no provision for pre-emptive rights under the Company's Articles of Association although there is no restriction against such rights under the laws in the Cayman Islands.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS

During the Reporting Period, the Group had the following connected transactions, details of which are disclosed in compliance with the requirements of Chapter 14A of the Listing Rules.

### Supply and R&D Agreement and the Finished Good Supply Agreement

On 27 March 2018, Shinhint Industries Limited ("**SHL**"), an indirect wholly-owned subsidiary of the Company entered into supply and research and development service agreement (the "**Supply and R&D Agreement**") with Tai Sing Industrial Company Limited ("**TSI**") for the period from 1 January 2018 to 31 December 2018. Pursuant to the Supply and R&D Agreement, SHL supplied the speaker units to TSI and TSI provided the research and development service ("**R&D service**") to SHL. Since TSI is indirectly and wholly owned by Mr. Cheung Wah Keung, who is a director of certain subsidiaries of the Company, TSI is a connected person of the Company. On 11 June 2018, SHL also entered into the finished goods supply agreement (the "**Finished Goods Supply Agreement**") with TSI, pursuant to which, TSI (or its subsidiaries) agreed to supply the speakers (finished goods) to SHL (or any of its subsidiaries), for the period from 1 July 2018 to 31 December 2018. Accordingly, the Supply and R&D Agreement and the Finished Goods Supply Agreement constitute continuing connected transactions of the Company under Chapter 14A of the Listing Rules during the Year. The annual caps for the supply of speaker units (for both the Supply and R&D Agreement and the Finished Goods Supply Agreement) and the R&D service transactions contemplated under the Supply and R&D Agreement were HK$14 million and HK$2.4 million for the year ended 31 December 2018 respectively.

For details, please refer to the announcement of the Company dated 4 April 2019.

For the Reporting Period, the supply of speaker units by SHL, its subsidiary and fellow subsidiaries to TSI under the Supply Agreement amounted to approximately HK$4 million; the provision of R&D service by TSI to SHL amounted to approximately HK$2.4 million, and the supply of speaker units by TSI (or its subsidiaries) to SHL (or any of its subsidiaries) under the Finished Goods Supply Agreement amounted to approximately HK$9.9 million.

## CONNECTED TRANSACTIONS AND CONTINUING CONNECTED TRANSACTIONS *(Continued)*

Pursuant to Rule 14A.56 of the Listing Rules, the auditor of the Company (the "**Auditor**") have been engaged to report on the above continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 (Revised) "Assurance Engagements Other Than Audits or Reviews of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. The Auditor had issued an unqualified letter to the Board containing their findings and conclusions in respect of the above continuing connected transactions, in which they have confirmed that nothing has come to their attention that caused them to believe that the above continuing connected transactions in the Reporting Period (i) had not been approved by the Board; (ii) were not, in all material respects, in accordance with the pricing policies of the Group; (iii) were not entered into, in all material respects, in accordance with the relevant agreement governing such transactions; and (iv) had exceeded the annual cap amount for the year ended 31 December 2018.

All the independent non-executive Directors have reviewed the above continuing connected transactions and confirmed that those transactions had been entered into (i) in the ordinary and usual course of business of the Group; (ii) on normal commercial terms or better; and (iii) according to the agreement governing them on terms that are fair and reasonable and in the interests of the Shareholders as a whole.

## MAJOR CUSTOMERS AND SUPPLIERS

During the Reporting Period, apart from the discontinued operations, sales to the Group's five largest customers accounted for approximately 49.6% of the Group's sales for the Year and sales to the Group's largest customer included therein accounted for approximately 11.03%.

During the Reporting Period, apart from the discontinued operations, purchase from the Group's five largest suppliers accounted for approximately 71.27% of the Group's total purchases for the Year and purchase from the Group's largest supplier included therein accounted for approximately 33.59%.

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

## IMPORTANT EVENTS AFTER THE BALANCE SHEET DATE

**(i) Change of Auditors**

On 20 February 2019, PricewaterhouseCoopers ("**PwC**") resigned as the Auditor as the Company confirmed that it could not reach a consensus with PwC on the audit fee for the financial year ended 31 December 2018. In accordance with the articles of association of the Company and with recommendation from the Audit Committee, the Board has resolved to appoint Cheng & Cheng Limited, Certified Public Accountants as the new Auditor to fill the vacancy following the resignation of PwC with effect from 20 February 2019 and to hold office until the conclusion of the next annual general meeting of the Company. For further details, please refer to the announcement of the Company dated 21 February 2019.

**(ii) Appointment of an Independent Non-Executive Director and Compliance with Rules 3.10(1) and 3.21 of the Listing Rules and Code Provision A.5.1 of the Corporate Governance of the Listing Rules**

Mr. Xu Changyin was appointed as an independent non-executive Director, member of the Audit Committee and as a chairman of the Nomination Committee of the Company on 16 March 2019.

Upon the appointment of Mr. Xu Changyin, the Board comprises three independent non-executive Directors, namely Mr. Lum Pak Sum , Mr. Liu Yang and Mr. Xu Changyin; the Audit Committee comprises three independent non-executive Directors, namely Mr. Lum Pak Sum (chairman), Mr. Liu Yang and Mr. Xu Changyin; and the Nomination Committee comprises one executive Director, namely Mr. Lin Caihuo, and three independent non-executive Directors, namely Mr. Lum Pak Sum, Mr. Liu Yang and Mr. Xu Changyin (chairman). Therefore, the compositions of the Board and the Audit Committee are in compliance with the requirements under Rule 3.10(1) and Rule 3.21 of the Listing Rules, respectively and the composition of the Nomination Committee is in compliance with code provision A.5.1 of the Corporate Governance Code in Appendix 14 to the Listing Rules. For further details, please refer to the announcement of the Company dated 16 March 2019.

Save as disclosed above, there was no important event affecting the Group that has occurred since the end of 31 December 2018 and up to the date of this announcement.

## PUBLIC FLOAT

As at the latest practicable date prior to the issue of this annual report, the Company has maintained the prescribed public float under the Listing Rules, based on the information that is publicly available to the Company and within the knowledge of the Directors.

## FIVE-YEAR FINANCIAL SUMMARY

A summary of the consolidated results and the assets and liabilities of the Group for the last five financial years is set out on page 142.

## AUDITOR

Messrs. Deloitte Touche Tohmatsu ("**Deloitte**") had acted as the Auditor for the year ended 31 December 2013. Deloitte has tendered its resignation as the Auditor with effect from 21 November 2014. Messrs. Cheng & Cheng Limited, Certified Public Accountants ("**Cheng & Cheng**") has been appointed as the Auditor with effect from 21 November 2014 to fill the casual vacancy following the resignation of Deloitte.

Cheng & Cheng had acted as the Auditor for the years ended 31 December 2014 and 2015. Cheng & Cheng has retired with effect from 27 May 2016. PwC has been appointed as the Auditor with effect from 27 May 2016 following the retirement of Cheng & Cheng.

PwC had acted as the Auditor for the year ended 31 December 2016 and 2017. PwC has tendered its resignation as the Auditor with effect from 20 February 2019. Cheng & Cheng has been appointed as the Auditor with effect from 20 February 2019 to fill the casual vacancy following the resignation of PwC.

The consolidated financial statements of the Company for the Reporting Period have been audited by Cheng & Cheng who will retire and, being eligible, offer themselves for re-appointment at the AGM. A resolution will be submitted to the AGM for the re-appointment of Cheng & Cheng as the Auditor.

On behalf of the Board

**Lin Caihuo**
*Chairman*

Hong Kong, 29 March 2019

* *For identification purposes only*

# Independent Auditor's Report

**CHENG & CHENG LIMITED**
CERTIFIED PUBLIC ACCOUNTANTS
鄭鄭會計師事務所有限公司

10/F, Allied Kajima Building,
138 Gloucester Road, Wanchai, Hong Kong
香港灣仔告士打道138號
聯合鹿島大廈10樓

**To the Shareholders of Yuhua Energy Holdings Limited**
(incorporated in Cayman Islands with limited liability)

## DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Yuhua Energy Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 53 to 141, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matters described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements. In all other respects, in our opinion the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

## BASIS FOR DISCLAIMER OF OPINION

1. **Going Concern**

   As described in Note 2.1.2 to the consolidated financial statements, the Group reported a net loss attributable to the owners of the Company of HK$351,811,000 and had a net current liabilities of approximately HK$33,509,000 during the year ended 31 December 2018. In addition, as at 31 December 2018 and up to the date of this report, loan principal of HK$204,738,000 (included in borrowings of the Group amounting to HK$396,532,000) and interest payables of HK$12,759,000 were not repaid in accordance with the scheduled payment dates. These constituted events of defaults which resulted in significant increase in finance costs and the probability of properties being seized, and cross-default of bills payables amounting to HK$55,923,000 as at 31 December 2018, of which had original contractual repayment dates beyond 31 December 2018. Partly as a result of the above cross-default, the Group's bills payables became repayable on demand. As at 31 December 2018, its cash and cash equivalents and restricted cash amounted to HK$36,156,000 are not sufficient to meet the borrowings. This indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

## BASIS FOR DISCLAIMER OF OPINION *(Continued)*

**1. Going Concern** *(Continued)*

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate delayed repayments to financial institutions, which are set out as below:

(i) negotiating with the lenders for the renewal of or extension of repayment of existing borrowings upon maturity;

(ii) obtaining additional new sources of financing as and when needed;

(iii) implementation of its operation plan to accelerate the Group's sales;

(iv) speeding up the collection of the outstanding sales proceeds;

(v) controlling costs and containing capital expenditures;

(vi) maintaining relationship with the Group's existing lenders so as to ensure that no action will be taken by those lenders to demand immediate repayment in respect of defaults in the past; and

(vii) obtaining continuing financial supports from the chairman.

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) the successful negotiations with the lenders for the renewal of or extension of repayment of existing borrowings upon maturity; (ii) whether the Group is able to obtain additional new sources of financing as and when needed; (iii) the successful implementation of its operation plan to accelerate the Group's sales, to speed up the collection of the outstanding sales proceeds and to control costs and contain capital expenditures; (iv) successfully maintaining relationship with the Group's existing lenders and to strictly comply with the terms and obligations under the facility agreements so as to ensure that there will be no default in the future and that no action will be taken by those lenders to demand immediate repayment in respect of defaults in the past; and (v) the successfully obtain continuing financial supports from the chairman, to meet obligations as and when their fall due.

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

**2. Impairments of trade and other receivables**

As disclosed in notes to the consolidated financial statements, the Group had trade receivables and prepayment to suppliers amounted to approximately HK$110,139,000 and HK$407,170,000 as at 31 December 2018 respectively. Included in these balances, approximately HK$21,137,000 were trade receivables from Shenzhen Qianhai HuaiDe Petrochemical Co., Ltd* (深圳市前海懷德石油化工有限公司) and Zhangjiagang Free Trade Zone Baota Petrochemical Co., Ltd* (張家港保税區寶塔石化有限公司) and approximately HK$276,097,000 was prepayment to Shanghai Baota Petrochemical Co., Ltd* (上海寶塔石化有限公司) as at 31 December 2018 after impairment losses of approximately HK$21,891,000 and HK$285,952,000, which were recognised in the profit or loss for the year ended 31 December 2018.

* *for identification purpose only*

## BASIS FOR DISCLAIMER OF OPINION *(Continued)*

**2. Impairments of trade and other receivables** *(Continued)*

Management made these impairments after taking into consideration certain facts and circumstances, including but not limited to, news about the liquidity problem of Zhangjiagang Free Trade Zone Baota Petrochemical Co., Ltd and Shanghai Baota Petrochemical Co., Ltd, as well as their performance on the subsequent settlements of the Group's trade receivables and prepayments respectively. However, the directors of the Company were unable to provide us with satisfactory explanation about the bases for estimating the expected timing and amounts of settlements from the above customers or counterparties and hence the recognised amounts of impairment and the carrying amounts of trade receivables and prepayments. There were no alternative audit procedures that we could perform to obtain sufficient and appropriate audit evidence to satisfy ourselves as to whether the amounts of impairment and carrying amounts of trade receivables and prepayments recognised by the Group were fairly stated. Consequently, we were unable to determine whether any adjustment to these amounts was necessary.

Included in the Group's trade receivables was an amount of approximately HK$62,483,000 as at 31 December 2018, due from a customer, Shanghai Zhaobang Petrochemical Co., Ltd* (上海兆邦石油化工有限公司), which is a group company of The State Council of the People's Republic of China (中國國務院). A letter of guarantee of agreeing to repay the debts was provided by the customer, based on that the Directors are of the view that the Group is able to recover the outstanding balance due from that customer, and therefore no impairment had been provided on such balance. However, we were unable to obtain sufficient appropriate audit evidence we consider necessary and there were no other alternative audit procedures that we could perform in order to assess whether such receivable could be recovered in full or to determine the amount of impairment, if any. Any adjustments to the amount of the above trade receivable found to be necessary would affect the Group's net current liabilities and net liabilities as at 31 December 2018 and the Group's loss for the year then ended and related note disclosures to the consolidated financial statements.

**3. Limitation of scope to accounting books and records of the discontinued operations — speaker manufacturing segment**

Due to the disposal of the entire issued share capital in a wholly owned subsidiary of the Company, Crown Million Industries (International) Limited together with its subsidiary (the Group's speaker manufacturing segment) and the changes of management and directors of these disposed subsidiaries during the year, we were unable to access the complete set of accounting books and records in respect of the disposed subsidiaries in relation to the Group's discontinued operations for the years ended 31 December 2018 and 2017.

As such, we were unable to obtain sufficient supporting documentation and explanations to carry out audit procedures to satisfy ourselves as to whether the profit of approximately HK$1,198,000 for the period from 1 January 2018 to 4 June 2018 (effective date of disposal) and the deconsolidated assets and liabilities as at 4 June 2018 respectively, and the related disclosure notes in relation to these subsidiaries were free from material misstatement.

In view of the circumstances as mentioned in the preceding paragraphs, we were also unable to carry out audit procedures to satisfy ourselves as to whether the gain on deconsolidation of discontinued disposed subsidiaries of approximately HK$1,117,000 included in the consolidated statement of profit or loss was fairly stated. Any adjustments that are found necessary in relation to matters as described above might have consequential effect on the Group's results and cash flows for the two years ended 31 December 2018 and 2017 and the financial positions of the Group as at 31 December 2017, and the related disclosures thereof in the consolidated financial statements.

* *for identification purpose only*

## RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The Audit Committee is responsible for overseeing the Group's financial reporting process.

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

Our responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing issued by the HKICPA and to issue an auditor's report. We report our opinion solely to you, as a body, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. However, because of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we were unable to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

## OTHER MATTER

The consolidated financial statements of the Group for the year ended 31 December 2017, were audited by another auditor who expressed an unmodified opinion on those statements on 23 March 2018.

**CHENG & CHENG LIMITED**
*Certified Public Accountants*
**Lui Chun Yip**
Practising Certificate number P07004

Hong Kong, 29 March 2019

# Consolidated Statement of Profit or Loss

*For the year ended 31 December 2018*

| | NOTE | 2018 HK$'000 | 2017 HK$'000 (Restated) |
|---|---|---|---|
| **Revenue** | 5 | **1,848,844** | 9,500,029 |
| Cost of sales | 6 | **(1,829,373)** | (9,409,509) |
| **Gross profit** | | **19,471** | 90,520 |
| Distribution expenses | 6 | **(3,909)** | (9,315) |
| Administrative expenses | 6 | **(36,117)** | (32,399) |
| Other income | 8 | **2,934** | 1,905 |
| Other (losses)/gains – net | 9 | **(22,041)** | 11,342 |
| Impairment of trade receivables | 20 | **(21,891)** | – |
| Impairment of prepayments | 20 | **(285,952)** | – |
| **Operating (loss)/profit** | | **(347,505)** | 62,053 |
| Finance income | 10 | **1,510** | 683 |
| Finance expenses | 10 | **(26,532)** | (17,918) |
| Finance expenses – net | 10 | **(25,022)** | (17,235) |
| **(Loss)/profit before income tax** | | **(372,527)** | 44,818 |
| Income tax credit/(expense) | 11 | **5,930** | (15,664) |
| **(Loss)/profit for the year from continuing operations** | | **(366,597)** | 29,154 |
| **Discontinued operations** | | | |
| Profit for the year from discontinued operations | 35 | **14,786** | 17,699 |
| (Loss)/profit for the year, all attributable to owners of the Company | | **(351,811)** | 46,853 |
| Basic (loss)/earnings per share | | | |
| Continuing operations (in cents per share) | 12 | **(11.85)** | 0.94 |
| Discontinued operations (in cents per share) | 12 | **0.48** | 0.57 |
| | | **(11.37)** | 1.51 |
| Diluted (loss)/earnings per share | | | |
| Continuing operations (in cents per share) | 12 | **(11.85)** | 0.94 |
| Discontinued operations (in cents per share) | 12 | **0.48** | 0.57 |
| | | **(11.37)** | 1.51 |

The notes on pages 59 to 141 are an integral part of these consolidated financial statements.

# Consolidated Statement of Comprehensive Income

*For the year ended 31 December 2018*

| | NOTE | 2018<br>HK$'000 | 2017<br>HK$'000<br>(Restated) |
|---|---|---|---|
| **(Loss)/profit for the year** | | **(351,811)** | 46,853 |
| **Other comprehensive (loss)/income** | | | |
| Items that may be reclassified to profit or loss | | | |
| – Currency translation differences | | **(11,958)** | 33,222 |
| – Reclassification of translation reserve upon disposal of subsidiaries | | **(1,117)** | – |
| **Total comprehensive (loss)/income for the year, all attributable to owners of the Company** | | **(364,886)** | 80,075 |
| **Total comprehensive (loss)/income attributable to owners of the Company arises from:** | | | |
| Continuing operations | | **(379,356)** | 58,200 |
| Discontinued operations | | **14,470** | 21,875 |
| | | **(364,886)** | 80,075 |

The notes on pages 59 to 141 are an integral part of these consolidated financial statements.

# Consolidated Statement of Financial Position

*As at 31 December 2018*

| | NOTE | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **Assets** | | | |
| **Non-current assets** | | | |
| Property, plant and equipment | 14 | **1,372** | 49,598 |
| Investment properties | 15 | **95,028** | 122,005 |
| Intangible assets | 16 | **–** | 978 |
| Prepayment for non-current assets | 17 | **–** | 231 |
| Rental deposits | | **–** | 611 |
| Deferred income tax assets | 28 | **–** | 284 |
| | | **96,400** | 173,707 |
| **Current assets** | | | |
| Inventories | 19 | **8,710** | 65,765 |
| Trade and other receivables and prepayments | 20 | **522,743** | 1,166,975 |
| Cash and cash equivalents | 21 | **16,462** | 20,323 |
| Restricted cash | 21 | **19,694** | 103,360 |
| | | **567,609** | 1,356,423 |
| **Total assets** | | **664,009** | 1,530,130 |
| **Equity and liabilities** | | | |
| **Equity attributable to owners of the Company** | | | |
| Share capital | 22 | **3,868** | 3,868 |
| Other reserves | 23 | **183,243** | 203,161 |
| (Accumulated losses)/retained earnings | | **(124,410)** | 220,558 |
| **Total equity** | | **62,701** | 427,587 |

# Consolidated Statement of Financial Position

*As at 31 December 2018*

| | NOTE | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|---|
| **Liabilities** | | | |
| **Non-current liabilities** | | | |
| Deferred income tax liabilities | 28 | **190** | 8,683 |
| **Current liabilities** | | | |
| Trade and other payables | 25 | **132,746** | 780,843 |
| Contract liabilities | 26 | **67,764** | – |
| Current income tax liabilities | | **4,076** | 4,004 |
| Borrowings | 27 | **396,532** | 309,013 |
| | | **601,118** | 1,093,860 |
| **Total liabilities** | | **601,308** | 1,102,543 |
| **Total equity and liabilities** | | **664,009** | 1,530,130 |

The notes on pages 59 to 141 are an integral part of these consolidated financial statements.

The financial statements on pages 53 to 141 were approved by the Board of Directors on 29 March 2019 and were signed on its behalf.

**Lin Caihuo**
*Director*

**Wang Enguang**
*Director*

# Consolidated Statement of Changes in Equity

*For the year ended 31 December 2018*

| | | Attributable to owners of the Company | | | |
|---|---|---|---|---|---|
| | NOTE | **Share capital** HK$'000 | **Other reserves** HK$'000 | **(Accumulated losses)/ Retained earnings** HK$'000 | **Total equity** HK$'000 |
| **Balance at 1 January 2017** | | 3,868 | 163,937 | 187,443 | 355,248 |
| Comprehensive income | | | | | |
| Profit for the year | | – | – | 46,853 | 46,853 |
| Other comprehensive income | | | | | |
| Currency translation differences | 23 | – | 33,222 | – | 33,222 |
| Total comprehensive income | | – | 33,222 | 46,853 | 80,075 |
| Transactions with owners in their capacity as owners | | | | | |
| Dividends paid | 29 | – | – | (7,736) | (7,736) |
| Appropriation to statutory reserve | 23 | – | 6,002 | (6,002) | – |
| **Balance at 31 December 2017** | | 3,868 | 203,161 | 220,558 | 427,587 |
| Comprehensive loss | | | | | |
| Loss for the year | | – | – | (351,811) | (351,811) |
| Other comprehensive income | | | | | |
| Reclassification of translation reserve upon disposal of subsidiaries | 23 | – | (1,117) | – | (1,117) |
| Currency translation differences | 23 | – | (11,958) | – | (11,958) |
| Total comprehensive loss | | – | (13,075) | (351,811) | (364,886) |
| Reclassification of statutory reserve upon disposal of subsidiaries | 23 | – | (6,402) | 6,402 | – |
| Appropriation to statutory reserve | 23 | – | (441) | 441 | – |
| **Balance at 31 December 2018** | | 3,868 | 183,243 | (124,410) | 62,701 |

The notes on page 59 to 141 are an integral part of these consolidated financial statements.

# Consolidated Statement of Cash Flows

*For the year ended 31 December 2018*

| | NOTE | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| Cash used in operations | 30(a) | **(88,102)** | (4,847) |
| Income tax paid | | **(4,424)** | (14,020) |
| Net cash used in operating activities | | **(92,526)** | (18,867) |
| **Cash flows from investing activities** | | | |
| Proceeds from disposal of property, plant and equipment | 30(a) | **45,768** | 2 |
| Proceeds from disposal of intangible assets | 30(a) | **380** | – |
| Purchases of property, plant and equipment | | **(565)** | (49,600) |
| Prepayment for non-current assets | | **–** | (223) |
| Net cash inflow arising on disposal of subsidiary | 35(a)(3) | **24,533** | – |
| Net cash generated from/(used in) investing activities | | **70,116** | (49,821) |
| **Cash flows from financing activities** | | | |
| Proceeds from bank borrowings | | **311,459** | 730,944 |
| Repayments of bank borrowings | | **(211,965)** | (734,124) |
| Repayments to related parties | | **(67,725)** | (31,599) |
| Proceeds from issuance of notes payable | | **–** | 94,653 |
| Dividends paid | | **–** | (7,736) |
| Interest expenses paid | | **(13,719)** | (17,921) |
| Net cash generated from financing activities | | **18,050** | 34,217 |
| Net decrease in cash and cash equivalents | | **(4,360)** | (34,471) |
| Cash and cash equivalents at beginning of year | 21 | **20,323** | 54,668 |
| Effect of foreign exchange rate changes | | **499** | 126 |
| **Cash and cash equivalents at end of year** | 21 | **16,462** | 20,323 |

The notes on pages 59 to 141 are an integral part of these consolidated financial statements.

## 1 GENERAL INFORMATION

Yuhua Energy Holdings Limited ("**the Company**") was incorporated as an exempted company with limited liability in the Cayman Islands under the Companies Law Cap. 22 (Law 3 of 1961, as consolidated and revised) of the Cayman Islands. The addresses of the registered office is Cricket Square Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands, and the principal place of business is 40/F, Sunlight Tower, No. 248 Queen's Road East, Wanchai, Hong Kong.

The Company and its subsidiaries (together, "**the Group**") are engaged in energy trading, including mainly trading of fuel oil and kerosene, speaker manufacturing and sales, and oil tanker transportation business. The Group has operations mainly in Hong Kong and Mainland China.

The shares of the Company are listed on the Main Board of The Stock Exchange of Hong Kong Limited.

These consolidated financial statements are presented in Hong Kong dollars (HK$), unless otherwise stated.

These consolidated financial statements were approved for issue by the Board of Directors on 29 March 2019.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

This note provides a list of the significant accounting policies adopted in the preparation of these consolidated financial statements. These policies have been consistently applied to all the years presented, unless otherwise stated. The financial statements are for the Group consisting of the Company and its subsidiaries.

### 2.1 Basis of preparation

#### *2.1.1 Compliance with Hong Kong Financial Reporting Standards and Hong Kong Companies Ordinance*

The consolidated financial statements of the Company have been prepared in accordance with Hong Kong Financial Reporting Standards ("**HKFRSs**"). In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited and the Hong Kong Companies Ordinance (Cap. 622).

The preparation of financial statements in conformity with HKFRSs requires the use of certain critical accounting estimates. It also requires management to exercise its judgement in the process of applying the Group's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

The financial statements have been prepared on a historical cost basis, except for investment properties, which are measured at fair value.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.2 Going Concern*

(i) The Group reported a net loss attributable to the owners of the Company of HK$351,811,000 and had a net current liabilities of approximately HK$33,509,000 during the year ended 31 December 2018.

(ii) As at 31 December 2018 and up to the date of this report, loan principal of HK$204,738,000 (included in borrowings of the Group amounting to HK$396,532,000) and interest payable HK$12,759,000 were not repaid in accordance with the scheduled payment dates. These constituted events of defaults which resulted in significant increase in finance costs and the probability of properties being seized, and cross-default of bills payables amounting to HK$55,923,000 as at 31 December 2018 of which had original contractual repayment dates beyond 31 December 2018. Partly as a result of the above cross-default, the Group's bills payables became repayable on demand. As at 31 December 2018, its cash and cash equivalents and restricted cash amounted to HK$36,156,000 are not sufficient to meet the borrowings.

This indicates the existence of material uncertainties which may cast significant doubt about the Group's ability to continue as a going concern.

The directors of the Company have been undertaking a number of measures to improve the Group's liquidity and financial position, and to remediate delayed repayments to financial institutions, which are set out as below:

(i) negotiating with the lenders for the renewal of or extension of repayment of existing borrowings upon maturity;

(ii) obtaining additional new sources of financing as and when needed;

(iii) implementation of its operation plan to accelerate the Group's sales;

(iv) speeding up the collection of the outstanding sales proceeds;

(v) controlling costs and containing capital expenditures;

(vi) maintaining relationship with the Group's existing lenders so as to ensure that no action will be taken by those lenders to demand immediate repayment in respect of defaults in the past; and

(vii) obtaining continuing financial supports from the chairman.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.2 Going Concern (Continued)*

The consolidated financial statements have been prepared on a going concern basis, the validity of which depends on the outcome of these measures, which are subject to multiple uncertainties, including (i) the successful negotiations with the lenders for the renewal of or extension of repayment of existing borrowings upon maturity; (ii) whether the Group is able to obtain additional new sources of financing as and when needed; (iii) the successful implementation of its operation plan to accelerate the Group's sales, to speed up the collection of the outstanding sales proceeds and to control costs and contain capital expenditures; (iv) successful maintaining relationship with the Group's existing lenders and to strictly comply with the terms and obligations under the facility agreements so as to ensure that there will be no default in the future and that no action will be taken by those lenders to demand immediate repayment in respect of defaults in the past; and (v) the successful obtaining continuing financial supports from the chairman, to meet obligations as and when their fall due.

Should the Group fail to achieve the above mentioned plans and measures, it might not be able to continue to operate as a going concern, and adjustments would have to be made to write down the carrying values of the Group's assets to their recoverable amounts, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities. The effects of these adjustments have not been reflected in the consolidated financial statements.

#### *2.1.3 Changes in accounting policy and disclosures*

**(a) New standards adopted by the Group**

The following new standards relevant to the Group have been adopted by the Group for the first time for the financial year beginning on or after 1 January 2018:

— HKFRS 9 *Financial Instruments*

— HKFRS 15 *Revenue from Contracts with Customers*

The impact of the adoption of these standards are disclosed below.

*(i) Adoption of HKFRS 9*

HKFRS 9 replaces the provisions of HKAS 39 that relate to the recognition, classification and measurement of financial assets and financial liabilities, derecognition of financial instruments, impairment of financial assets and hedge accounting.

The adoption of HKFRS 9 from 1 January 2018 resulted in changes in accounting policies and adjustments to the amounts recognized in the consolidated financial statements. In accordance with the transitional provisions in HKFRS 9, comparative figures have not been restated.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures* *(Continued)*

**(a) New standards adopted by the Group** *(Continued)*

*(i) Adoption of HKFRS 9 (Continued)*

Classification and measurement

On 1 January 2018 (the date of initial application of HKFRS 9), the Group's management has assessed which business models apply to the financial assets held by the Group and has classified its financial instruments into the appropriate HKFRS 9 categories . The adoption of HKFRS 9 did not have material impact on the classification and measurement of the Group's financial assets and liabilities.

Impairment of financial assets

The Group has two main types of financial assets that are subject to HKFRS 9's new expected credit loss model:

— Trade receivables; and

— Other financial assets measured at amortised costs (including cash and cash equivalents, restricted cash and other receivables)

The Group was required to revise its impairment methodology under HKFRS 9 for each of these classes of assets. The impact of the change in impairment methodology is as follows:

Trade receivables

The Group applies HKFRS 9 simplified approach to measuring expected credit losses which uses a lifetime expected loss allowance for all trade receivables.

To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics and aging analysis.

The Group has assessed the expected credit loss model applied to the trade receivables as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

The adoption of expected credit loss model under HKFRS 9 did not have material impact on allowance for impairment of trade receivables calculated under HKAS 39.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures* (Continued)

**(a) New standards adopted by the Group** *(Continued)*

*(i) Adoption of HKFRS 9 (Continued)*

Other financial assets measured at amortised cost

Other financial assets at amortised cost include other receivables. The Group has applied the expected credit loss model to other receivables as at 1 January 2018 and the change in impairment methodologies did not have any material impact on the Group's consolidated financial statements and the opening loss allowance is not restated in this respect.

While cash and cash equivalents and restricted cash are also subject to the impairment requirements of HKFRS 9, the identified impairment loss was immaterial.

*(ii) Adoption of HKFRS 15*

HKFRS 15 establishes a comprehensive framework for recognizing revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, Revenue, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, Construction contracts, which specified the accounting for construction contracts. The Group has elected to use the modified retrospective approach which means that the cumulative impact of the adoption will be recognised in retained earnings at 1 January 2018. Therefore, comparative information has not been restated and continues to be reported under HKAS18. As allowed by HKFRS 15, the Group has applied the new requirements only to contracts that were not completed before 1 January 2018.

Timing of revenue recognition

Previously, revenue from sale of goods was generally recognised at a point in time when the risks and rewards of ownership of the goods had passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. This may be at a single point in time or over time. HKFRS 15 identifies the following three situations in which control of the promised good or service is regarded as being transferred over time:

— When the customer simultaneously receives and consumes the benefits provided by the Group's performance, as the Group performs;

— When the Group's performance creates or enhances an asset that the customer controls as the asset is created or enhanced; or

— When 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures (Continued)*

**(a) New standards adopted by the Group** *(Continued)*

*(ii) Adoption of HKFRS 15 (Continued)*

Timing of revenue recognition *(Continued)*

If the contract terms and the Group's activities do not fall into any of these 3 situations, then under HKFRS 15 the Group recognises revenue for the sale of that goods or services at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that is considered in determining when the transfer of control occurs.

The Group is engaged in trading of energy products including mainly trading of fuel oil and kerosene, oil tanker transportation services and manufacturing and trading of speaker units.

The timing and accounting treatments of revenue recognition are the same before and after adopting the HKFRS 15. Other than certain reclassification of contract liabilities, the adoption of HKFRS 15 did not result in any impact to the financial statements. There is also no material impact to the Group's retained earnings as at 1 January 2018.

Presentation of contract assets and liabilities

Under HKFRS 15, a receivable is recognised only if the Group has an unconditional right to consideration. If the Group recognises the related revenue before being unconditionally entitled to the consideration for the promised goods and services in the contract, then the entitlement to consideration is classified as a contract asset.

Similarly, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, either a net contract asset or a net contract liability is presented. For multiple contracts, contract assets and contract liabilities of unrelated contracts are not presented on a net basis. The impact on the Group's financial position by the application of HKFRS 15 as compared to HKAS 18 that was previously in effect before the adoption of HKFRS 15 is as follows:

| | HKAS 18 carrying amount 31 December 2017 HK$'000 | Reclassification HK$'000 | **HKFRS 15 carrying amount 1 January 2018 HK$'000** |
|---|---|---|---|
| Trade and other payables | (780,843) | 198,585 | **(582,258)** |
| Contract liabilities | – | (198,585) | **(198,585)** |

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures* (Continued)

**(a) New standards adopted by the Group** *(Continued)*

*(ii) Adoption of HKFRS 15 (Continued)*

Presentation of contract assets and liabilities *(Continued)*

Disclosure of the estimated impact on the amounts reported in respect of the year ended 31 December 2018 as a result of the adoption of HKFRS 15 on 1 January 2018

The following tables summarise the estimated impact of adoption of HKFRS 15 on the Group's consolidated financial statements for the year ended 31 December 2018, by comparing the amounts reported under HKFRS 15 in these consolidated financial statements with estimates of the hypothetical amounts that would have been recognised under HKAS 18 and HKAS 11 if those superseded standards had continued to apply to 2018 instead of HKFRS 15. These tables show only those line items impacted by the adoption of HKFRS 15:

| | Amounts reported in accordance with HKFRS 15 (A) | Hypothetical amounts under HKASs 18 and 11 (B) | Difference: Estimated impact of adoption of HKFRS 15 on 2018 (A)–(B) |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| **Line items in the consolidated statement of financial position as at 31 December 2018 impacted by the adoption of HKFRS 15:** | | | |
| Trade and other payables | (132,746) | (200,510) | 67,764 |
| Contract liabilities | (67,764) | – | (67,764) |
| **Line items in the reconciliation of profit before taxation to cash generated from operations for year ended 31 December 2018 impacted by the adoption of HKFRS 15:** | | | |
| (Decrease)/increase in trade and other payables | (247,727) | (373,761) | 126,034 |
| Decrease in contract liabilities | (126,034) | – | (126,034) |

The significant differences arise as a result of the changes in accounting policies described above.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures* *(Continued)*

**(b) New standards and interpretations not yet adopted**

Certain new accounting standards and amendments to standards and interpretations have been published that are not mandatory for 31 December 2018 reporting year and have not been early adopted by the Group. These new standards and amendments to standards and interpretations are set out below:

| Standards and amendments | Effective for annual periods beginning on or after |
|---|---|
| Amendments to HKAS 1 and HKAS 8 'Definition of Material' | 1 January 2020 |
| Amendments to HKFRS 3 'Definition of a Business' | 1 January 2020 |
| HKFRS 16 'Leases' | 1 January 2019 |
| HKFRS 17 'Insurance contracts' | 1 January 2021 |
| Amendments to HKFRS 9 'Prepayment Features with Negative Compensation' | 1 January 2019 |
| Amendments to HKFRSs 'Annual Improvements to HKFRSs 2015–2017 Cycle' | 1 January 2019 |
| Amendments to HKAS 19 'Plan Amendment, Curtailment or Settlement' | 1 January 2019 |
| Amendments to HKAS 28 'Long-term Interests in Associates and Joint Ventures' | 1 January 2019 |
| HK(IFRIC) 23 'Uncertainty over income tax treatments' | 1 January 2019 |
| Amendments to HKFRS 10 and HKAS 28 'Sale or contribution of assets between an investor and its associate or joint venture' | To be determined |

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. So far the Group has identified some aspects of the new standards which may have a significant impact on the consolidated financial statements. Further details of the expected impacts are discussed below. While the assessment has been substantially completed for HKFRS 16, the actual impacts upon the initial adoption of the standards may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standards are initially applied in the Group's interim financial report for the six months ended 30 June 2019. The Group may also change its accounting policy elections, including the transition options, until the standards are initially applied in that financial report.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures (Continued)*

**(b) New standards and interpretations not yet adopted** *(Continued)*

*HKFRS 16, 'Leases'*

As disclosed in note 2.29, currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019 and will not restate the comparative information. As disclosed in note 31(b), at 31 December 2018 the Group's future minimum lease payments under non-cancellable operating leases amount to HK$146,000 for properties, the majority of which is payable within 1 year. However, the Group has not yet determined to what extent these commitments will result in the recognition of an asset and a liability for future payments and how this will affect the Group's profit and classification of cash flows.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.1 Basis of preparation *(Continued)*

#### *2.1.3 Changes in accounting policy and disclosures* *(Continued)*

**(b) New standards and interpretations not yet adopted** *(Continued)*

*HKFRS 16, 'Leases' (Continued)*

Other than the recognition of lease liabilities and right-of-use assets, the Group expects that the transition adjustments to be made upon the initial adoption of HKFRS 16 will not be material. However, the expected changes in accounting policies as described above could have a material impact on the Group's financial statement from 2019 onwards.

### 2.2 Principles of consolidation

Subsidiaries are all entities (including structured entities) over which the Group has control. The Group controls an entity when the Group is exposed to, or has rights to, variable returns from its involvement with the entity and has the ability to affect those returns through its power to direct the activities of the entity. Subsidiaries are fully consolidated from the date on which control is transferred to the Group. They are deconsolidated from the date that control ceases.

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

When the Group loses control of a subsidiary, the assets and liabilities of that subsidiary are derecognised. A gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the carrying amount of the assets, and liabilities of the subsidiary attributable to the owners of the Company. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/permitted by applicable HKFRSs).

### 2.3 Separate financial statements

Investments in subsidiaries are accounted for at cost less impairment. Cost includes direct attributable costs of investment. The results of subsidiaries are accounted for by the Company on the basis of dividend received and receivable.

Impairment testing of the investments in subsidiaries is required upon receiving a dividend from these investments if the dividend exceeds the total comprehensive income of the subsidiary in the period the dividend is declared or if the carrying amount of the investment in the separate financial statements exceeds the carrying amount in the consolidated financial statements of the investee's net assets including goodwill.

### 2.4 Segment reporting

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.5 Foreign currency translation

#### *(a) Functional and presentation currency*

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

#### *(b) Transactions and balances*

Foreign currency transactions are translated into the functional currency using the exchange rates at the dates of the transactions. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation of monetary assets and liabilities denominated in foreign currencies at year end exchange rates are generally recognised in profit or loss. They are deferred in equity if they relate to qualifying cash flow hedges and qualifying net investment hedges or are attributable to part of the net investment in a foreign operation.

All foreign exchange gains and losses are presented in statement of profit or loss within 'Other (losses)/gains – net', unless they are related to borrowings which are presented in 'finance expenses'.

#### *(c) Group companies*

The results and financial position of all the Group entities (none of which has the currency of a hyper-inflationary economy) that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

(i) assets and liabilities for each statement of financial position presented are translated at the closing rate at the date of that statement of financial position;

(ii) income and expenses for each statement of profit or loss are translated at average exchange rates (unless this average is not a reasonable approximation of the cumulative effect of the rates prevailing on the transaction dates, in which case income and expenses are translated at the rate on the dates of the transactions); and

(iii) all resulting currency translation differences are recognised in other comprehensive income.

### 2.6 Property, plant and equipment

Property, plant and equipment including plant and machinery, oil tanker, moulds, furniture, fixtures and office equipment, motor vehicles and leasehold improvements is stated at historical cost less accumulated depreciation and accumulated impairment losses, if any. Historical cost includes expenditure that is directly attributable to the acquisition of the items.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.6 Property, plant and equipment *(Continued)*

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

Depreciation is calculated using the straight-line method to allocate their cost, net of their residual values, over their estimated useful lives, as follows:

| | |
|---|---|
| – Plant and machinery | 5-10 years |
| – Oil tanker | 20 years |
| – Moulds | 3 years |
| – Furniture, fixtures and office equipment | 3-5 years |
| – Leasehold improvements | Shorter of 5 years or remaining lease term |
| – Motor vehicles | 4-5 years |

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

An asset's carrying amount is written down immediately to its recoverable amount if the asset's carrying amount is greater than its estimated recoverable amount (Note 2.10).

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognised within 'Other (losses)/gains – net' in the statement of profit or loss.

### 2.7 Investment properties

Investment properties, principally office buildings, are held for long-term rental yields and are not occupied by the Group. Investment properties are initially measured at cost, including related transaction costs and where applicable borrowing costs. Subsequently, they are carried at fair value. Changes in fair values are presented in profit or loss as part of 'Other (losses)/gains – net'.

### 2.8 Intangible assets

***Club membership***

Club membership with indefinite useful life is carried at cost less subsequent accumulated impairment losses, if any (Note 2.10).

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.9 Research and development expenditure

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

An internally-generated intangible asset arising from development (or from the development phase of an internal project) is recognised if, and only if, all of the following have been demonstrated:

- the technical feasibility of completing the intangible asset so that it will be available for use or sale;
- the intention to complete the intangible asset and use or sell it;
- the ability to use or sell the intangible asset;
- how the intangible asset will generate probable future economic benefits;
- the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset; and
- the ability to measure reliably the expenditure attributable to the intangible asset during its development.

The amount initially recognised for internally-generated intangible asset is the sum of the expenditure incurred from the date when the intangible asset first meets the recognition criteria listed above. Where no internally-generated intangible asset can be recognised, development expenditure is recognised to profit or loss in the period in which it is incurred.

Subsequent to initial recognition, internally-generated intangible asset is measured at cost less accumulated amortisation and accumulated impairment losses (if any), on the same basis as intangible assets acquired separately.

### 2.10 Impairment of non-financial assets

Intangible assets that have an indefinite useful life are not subject to amortisation and are tested annually for impairment, or more frequently if events or changes in circumstances indicate that they might be impaired. Other assets are tested for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. An impairment loss is recognised for the amount by which the asset's carrying amount exceeds its recoverable amount. The recoverable amount is the higher of an asset's fair value less costs of disposal and value in use. For the purposes of assessing impairment, assets are grouped at the lowest levels for which there are separately identifiable cash inflows which are largely independent of the cash inflows from other assets or groups of assets (cash-generating units). Non-financial assets other than goodwill that suffered an impairment are reviewed for possible reversal of the impairment at the end of each reporting period.

# 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

## 2.11 Financial assets

**(Policies under HKFRS 9 applicable from 1 January 2018)**

***Classification, initial recognition and measurement***

The Group classifies its financial assets as amortised cost. The classification of financial assets at initial recognition depends on the financial asset's contractual cash flow characteristics and the Group's business model for managing them. See Note 18 for details about each type of financial asset. With the exception of receivables that do not contain a significant financing component or for which the Group has applied the practical expedient, the Group initially measures a financial asset at its fair value. Receivables that do not contain a significant financing component or for which the Group has applied the practical expedient are measured at the transaction price determined under HKFRS 15. Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

In order for a financial asset to be classified and measured at amortised cost, it needs to give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding. This assessment is referred to as the solely payments of principal and interest test and is performed at an instrument level.

The Group's business model for managing financial assets refers to how it manages its financial assets in order to generate cash flows. The business model determines whether cash flows will result from collecting contractual cash flows, selling the financial assets, or both.

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

***Subsequent measurement***

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

In order for a financial asset to be classified and measured at amortised cost, if both of the following conditions are met:

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

Financial assets at amortised cost are subsequently measured using the effective interest method and are subject to impairment. Gains and losses are recognised in profit or loss when the asset is derecognised, modified or impaired.

The Group's financial assets at amortised cost includes trade and other receivables, rental deposits, restricted cash and cash and cash equivalents (Note 18).

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.11 Financial assets *(Continued)*

**(Policies under HKFRS 9 applicable before 1 January 2018)**

***Classification, initial recognition and measurement***

The Group classifies its financial assets as loans and receivables. The classification depends on the purpose for which the investments were acquired. Management determines the classification of its investments at initial recognition. See Note 18 for details about each type of financial asset.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. If collection of the amounts is expected in one year or less they are classified as current assets. If not, they are presented as non-current assets. The Group's loans and receivables comprise of trade and other receivables, rental deposits, restricted cash and cash and cash equivalents (Note 18).

Regular way purchases and sales of financial assets are recognised on trade-date, the date on which the Group commits to purchase or sell the asset. Financial assets are derecognised when the rights to receive cash flows from the financial assets have expired or have been transferred and the Group has transferred substantially all the risks and rewards of ownership.

At initial recognition, the Group measures a financial asset at its fair value plus, in the case of a financial asset not at fair value through profit or loss, transaction costs that are directly attributable to the acquisition of the financial asset. Transaction costs of financial assets carried at fair value through profit or loss are expensed in profit or loss.

***Subsequent measurement***

Loans and receivables are subsequently carried at amortised cost using the effective interest method.

Details on how the fair value of financial instruments is determined are disclosed in Note 3.3.

### 2.12 Offsetting financial instruments

Financial assets and liabilities are offset and the net amount reported in the statement of financial position where the Group currently has a legally enforceable right to offset the recognised amounts, and there is an intention to settle on a net basis or realise the asset and settle the liability simultaneously.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Impairment of financial assets

**(Policies under HKFRS 9 applicable from 1 January 2018)**

The Group recognises an allowance for expected credit losses ("ECLs") for all debt instruments not held at fair value through profit or loss. ECLs are based on the difference between the contractual cash flows due in accordance with the contract and all the cash flows that the Group expects to receive, discounted at an approximation of the original effective interest rate. The expected cash flows will include cash flows from the sale of collateral held or other credit enhancements that are integral to the contractual terms.

***General approach***

ECLs are recognised in two stages. For credit exposures for which there has not been a significant increase in credit risk since initial recognition, ECLs are provided for credit losses that result from default events that are possible within the next 12 months (a 12-month ECL). For those credit exposures for which there has been a significant increase in credit risk since initial recognition, a loss allowance is required for credit losses expected over the remaining life of the exposure, irrespective of the timing of the default (a lifetime ECL).

At each reporting date, the Group assesses whether the credit risk on a financial instrument has increased significantly since initial recognition. When making the assessment, 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 and considers reasonable and supportable information that is available without undue cost or effort, including historical and forward-looking information.

The Group considers a financial asset in default when contractual payments are 90 days past due. However, in certain cases, the Group may also consider a financial asset to be in default when internal or external information indicates that the Group is unlikely to receive the outstanding contractual amounts in full before taking into account any credit enhancements held by the Group. A financial asset is written off when there is no reasonable expectation of recovering the contractual cash flows.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.13 Impairment of financial assets *(Continued)*

**(Policies under HKFRS 9 applicable from 1 January 2018)** *(Continued)*

***General approach*** *(Continued)*

Financial assets at amortised cost are subject to impairment under the general approach and they are classified within the following stages for measurement of ECLs except for trade receivables which apply the simplified approach as detailed below.

| | | |
|---|---|---|
| Stage 1 | – | Financial instruments for which credit risk has not increased significantly since initial recognition and for which the loss allowance is measured at an amount equal to 12-month ECLs |
| Stage 2 | – | Financial instruments for which credit risk has increased significantly since initial recognition but that are not credit-impaired financial assets and for which the loss allowance is measured at an amount equal to lifetime ECLs |
| Stage 3 | – | Financial assets that are credit-impaired at the reporting date (but that are not purchased or originated credit-impaired) and for which the loss allowance is measured at an amount equal to lifetime ECLs |

***Simplified approach***

For trade receivables that do not contain a significant financing component or when the Group applies the practical expedient of not adjusting the effect of a significant financing component, the Group applies the simplified approach in calculating ECLs. Under the simplified approach, the Group does not track changes in credit risk, but instead recognises a loss allowance based on lifetime ECLs at each reporting date. The Group has established a provision matrix that is based on its historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

**(Policies under HKAS 39 applicable before 1 January 2018)**

The Group assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a "**loss event**") and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables, 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 (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognised in profit or loss. If a loan has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the Group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised (such as an improvement in the debtor's credit rating), the reversal of the previously recognised impairment loss is recognised in profit or loss.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.14 Inventories

Raw materials, work in progress and finished goods are stated at the lower of cost and net realisable value. Cost of finished goods and work in progress comprises direct materials, direct labour, and an appropriate proportion of variable and fixed overhead expenditure (based on normal operating capacity). Costs of purchased inventory are determined after deducting rebates and discounts. Costs are assigned to individual items of inventory based on first-in, first-out (FIFO) method. Net realisable value is the estimated selling price in the ordinary course of business, less the estimated costs of completion and the estimated costs necessary to make the sale.

### 2.15 Trade and other receivables

Trade receivables are amounts due from customers for merchandise sold or services performed in the ordinary course of business. If collection of trade and other receivables is expected within 12 months after the report period (or in the normal operating cycle of the business if longer), they are classified as current assets. If not, they are presented as non-current assets.

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less allowance for impairment. See Note 2.11 for further information about the Group's accounting for trade receivables and Note 2.13 for a description of the Group's impairment policies.

### 2.16 Cash and cash equivalents

For the purpose of presentation in the consolidated statement of cash flows, cash and cash equivalents includes cash on hand, deposits held at call with banks, other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and which are subject to an insignificant risk of changes in value.

### 2.17 Share capital

Ordinary shares are classified as equity (Note 22).

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### 2.18 Trade and other payables

Trade and other payables represent liabilities for goods and services provided to the Group prior to the end of financial year which are unpaid. Trade and other payables are classified as current liabilities if payment is due within 12 months after the reporting period (or in the normal operating cycle of the business if longer). If not, they are presented as non-current liabilities.

Trade and other payables are recognised initially at their fair value and subsequently measured at amortised cost using the effective interest method.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.19 Borrowings

Borrowings are initially recognised at fair value, net of transaction costs incurred. Borrowings are subsequently carried at amortised cost. Any difference between the proceeds (net of transaction costs) and the redemption value is recognised in profit or loss over the period of the borrowings using the effective interest method.

Borrowings are removed from the statement of financial position when the obligation specified in the contract is discharged, cancelled or expired. The difference between the carrying amount of a financial liability that has been extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in profit or loss as other income or finance costs.

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

### 2.20 Borrowing costs

General and specific borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset are capitalised during the period of time that is required to complete and prepare the asset for its intended use or sale. Qualifying assets are assets that necessarily take a substantial period of time to get ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are expensed in the period in which they are incurred.

### 2.21 Current and deferred income tax

The income tax expense or credit for the period is the tax payable on the current period's taxable income based on the applicable income tax rate for each jurisdiction adjusted by changes in deferred tax assets and liabilities attributable to temporary differences and to unused tax losses.

#### *(a) Current income tax*

The current income tax charge is calculated on the basis of the tax laws enacted or substantively enacted at the end of the reporting period in the countries where the Company's subsidiaries operate and generate taxable income. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. It establishes provisions where appropriate on the basis of amounts expected to be paid to the tax authorities.

#### *(b) Deferred income tax*

Deferred income tax is provided in full, using the liability method, on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the consolidated financial statements. However, deferred tax liabilities are not recognised if they arise from the initial recognition of goodwill. Deferred income tax is also not accounted for if it arises from initial recognition of an asset or liability in a transaction other than a business combination that at the time of the transaction affects neither accounting nor taxable profit or loss. Deferred income tax is determined using tax rates (and laws) that have been enacted or substantially enacted by the end of the reporting period and are expected to apply when the related deferred income tax asset is realised or the deferred income tax liability is settled.

The deferred tax liability in relation to investment property that is measured at fair value is determined assuming the property will be recovered entirely through sale.

Deferred tax assets are recognised only if it is probable that future taxable amounts will be available to utilise those temporary differences and losses.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.21 Current and deferred income tax *(Continued)*

#### *(b) Deferred income tax* (Continued)

Deferred income tax liabilities are provided on taxable temporary differences arising from investments in subsidiaries, except for deferred income tax liability where the timing of the reversal of the temporary difference is controlled by the Group and it is probable that the temporary difference will not reverse in the foreseeable future.

Deferred income tax assets are recognised on deductible temporary differences arising from investments in subsidiaries only to the extent that it is probable the temporary difference will reverse in the future and there is sufficient taxable profit available against which the temporary difference can be utilised.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority. Current tax assets and tax liabilities are offset where the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

Current and deferred tax is recognised in profit or loss, except to the extent that it relates to items recognised in other comprehensive income or directly in equity. In this case, the tax is also recognised in other comprehensive income or directly in equity, respectively.

### 2.22 Employee benefits

The Group participates in defined contribution retirement schemes administered by local governments in different cities of the Mainland China (the "**Central Schemes**"). The Group and the employees are required to make cash contributions calculated at certain percentages of the employees' basic salaries to the Central Schemes. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group also operates the mandatory provident fund scheme (the "**MPF Scheme**") for its Hong Kong staff. The MPF Scheme is a defined contribution retirement benefit scheme administered by independent trustees. Contributions from the employer are vested in the employees as soon as they are paid to relevant MPF Scheme but all benefits derived from the mandatory contributions must be preserved until the employee reaches the retirement age of 65 subject to a few exceptions. The assets of the schemes are held separately from those of the Group in independently administered funds.

The Group's contributions to the defined contribution retirement schemes are expensed as incurred. The Group has no further payment obligations once the contributions have been made.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.23 Share-based payments

The Group operates an equity-settled, share-based compensation plan, under which the entity receives services from employees as consideration for equity instruments (options) of the Group. The fair value of the employee services received in exchange for the grant of the options is recognised as an expense with a corresponding increase in equity. The total amount to be expensed is determined by reference to the fair value of the options granted. The total expense is recognised over the vesting period, which is the period over which all of the specified vesting conditions are to be satisfied.

At the end of each reporting period, the Group revises its estimates of the number of options that are expected to vest based on the non-marketing performance and service conditions. It recognises the impact of the revision to original estimates, if any, in the statement of profit or loss, with a corresponding adjustment to equity.

When the options are exercised, the Company issues new shares. The proceeds received net of any directly attributable transaction costs are credited to share capital and share premium account accordingly.

### 2.24 Revenue recognition

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates or 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 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.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.24 Revenue recognition *(Continued)*

***Principal versus agent***

When another party is involved in providing goods or services to a customer, the Group determines whether the nature of its promise is a performance obligation to provide the specified goods or services itself (i.e. direct sales in which the Group is a principal) or to arrange for those goods or services to be provided by the other party.

The Group is a principal if it controls the specified good or service before that good or service is transferred to a customer.

The Group is an agent if its performance obligation is to arrange for the provision of the specified good or service by another party. In this case, the Group does not control the specified good or service provided by another party before that good or service is transferred to the customer. When the Group acts as an agent, it recognises revenue in the amount of any fee or commission to which it expects to be entitled in exchange for arranging for the specified goods or services to be provided by the other party.

***Revenue from contracts with customers***

**(a) Sales of energy trading products**

Revenue is recognised when control of the products has transferred, being when the products are delivered to the customer, the customer has full discretion over the channel and price to sell the products, and there is no more unfulfilled obligation that could affect the customers' acceptance of the products. Delivery occurs when the products have been shipped to the location as agreed on the sales contract and the certificates of ownership are handed over to customer, or when products are shipped at the shipping point. The risks of obsolescence and loss have been transferred to the customers when either the customer has accepted the products in accordance with the sales contract, or the Group has objective evidence that all criteria for acceptance have been satisfied.

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

Revenue is measured at the amount receivable under the sales contract.

The accounting treatments are the same before and after adopting HKFRS 15.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.24 Revenue recognition *(Continued)*

***Revenue from contracts with customers*** *(Continued)*

**(b) Sales of speaker units**

Revenue is recognised when the products are delivered to customer and the customer has inspected and accepted the products.

Revenue is based on the price specified in the sales contracts.

The accounting treatments are the same before and after adopting HKFRS 15.

**(c) Revenue from oil tanker transportation service**

Revenue is recognised in the accounting period in which the services are rendered and is recognised based on the actual service provided up to the end of the reporting period as a proportion of the total services to be provided for a voyage. This is determined based on the actual days spent relative to the total expected days of a voyage.

The accounting treatments are the same before and after adopting HKFRS 15.

***Other revenue***

**(a) Rental income**

Rental income from investment properties is recognised in the consolidated statement of profit or loss on a straight-line basis over the term of the lease.

**(b) Interest income**

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

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.25 Discontinued operation

A discontinued operation is a component of the Group's business, the operations and cash flows of which can be clearly distinguished from the rest of the Group and which represents a separate major line of business or geographical area of operations, or is part of a single coordinated plan to dispose of a separate major line of business or geographical area of operations, or is a subsidiary acquired exclusively with a view to resale.

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

Where an operation is classified as discontinued, a single amount is presented on the face of the consolidated statement of profit or loss, which comprises:

– the post-tax profit or loss of the discontinued operation; and

– the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets or disposal group(s) constituting the discontinued operation.

### 2.26 Provisions and contingent liabilities

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

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

### 2.27 Dividend distribution

Dividend distribution to the Company's shareholders is recognised as a liability in the Group's financial statements in the period in which the dividends are approved by the Company's shareholders or directors, where appropriate.

### 2.28 Government grants

Grants from the government are recognised at their fair value where there is a reasonable assurance that the grant will be received and the Group will comply with all attached conditions.

Government grants relating to costs are deferred and recognised in the profit or loss over the period necessary to match them with the costs that they are intended to compensate.

Government grants relating to the purchase of property, plant and equipment are included in non-current liabilities as deferred income and are credited to profit or loss on a straight-line basis over the expected lives of the related assets.

## 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

### 2.29 Leases

Leases in which a significant portion of the risks and rewards of ownership are not transferred to the Group as lessee are classified as operating leases. Payments made under operating leases (net of any incentives received from the lessor) are charged to profit or loss on a straight-line basis over the period of the lease.

Lease income from operating leases where the Group is a lessor is recognised in income on a straight-line basis over the lease term. The respective leased assets are included in the consolidated statement of financial position based on their nature.

### 2.30 Related parties

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

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

- (i) has control or joint control over the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

or

(b) the party is an entity where any of the following conditions applies:

- (i) the entity and the Group are members of the same group;
- (ii) one entity is an associate or joint venture of the other entity (or of a parent, subsidiary or fellow subsidiary of the other entity);
- (iii) the entity and the Group are joint ventures of the same third party;
- (iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
- (v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;
- (vi) the entity is controlled or jointly controlled by a person identified in (a);
- (vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity); and
- (viii) the entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

# 3 FINANCIAL RISK MANAGEMENT

## 3.1 Financial risk factors

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

### *(a) Market risk*

#### (i) Foreign exchange risk

The Group operates in the People's Republic of China ("**PRC**") and Hong Kong and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to the US dollar (US$). Foreign exchange risk arises from future commercial transactions and recognised assets and liabilities denominated in a currency that is not the functional currency of the relevant group entity. To mitigate the impact of exchange rate fluctuations, the Group continually assesses and monitors the exposure to foreign exchange risk. The management will consider hedging significant foreign currency exposure should the need arise.

As at 31 December 2018, the Group did not have material assets and liabilities that are denominated in a currency other than the functional currency of the Group. As HK$ is currently pegged to US$, the management considers that the exposure to exchange rate fluctuation in respect of US$ is limited. No sensitivity analysis is presented.

#### (ii) Fair value interest rate risk

Except for cash at bank and restricted cash (Note 21), the Group has no other significant interest-bearing assets. The Group's income and operating cash flows are substantially independent of changes in market interest rates. Management does not anticipate significant impact on interest-bearing assets resulted from the changes in interest rates because the interest rates of bank deposits are not expected to change significantly.

The Group's interest rate risk mainly arises from short-term borrowings. Borrowings obtained at fixed rates expose the Group to fair value interest rate risk. The management monitors interest rate exposure and will consider hedging significant interest rate exposure should the need arises. The management considers that the Group's exposure to interest rate fluctuations is insignificant.

The Group's exposures to interest rates on financial liabilities are detailed in the liquidity risk management section of this note.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(b) Credit risk*

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of the respective recognised financial assets as stated in the consolidated statement of financial position.

The Group's credit risk is primarily attributable to its trade debtors. The Group is exposed to concentration of credit risk as a substantial portion of its trade debtors is generated from a limited number of customers. The top five customers of the Group accounted for about 98% (2017: 81%) of the Group's trade debtors as at 31 December 2018, of which an aggregate carrying amount of HK$93,597,000 (2017: HK$12,209,000) which are past due but not impaired at the end of reporting period. These relate to a number of independent customers for whom there is no recent history of default. The assessment on impairment on debtors is set out in Note 20.

In order to minimise the credit risk, the Group manages its credit risk by closely monitoring the granting of credit period and credit limit and follow-up action is taken to recover overdue debts. The Group reviews the recoverable amount of each individual trade debtor at the end of each reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected credit loss provision for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. The Group has performed historical analysis and identified the key economic variables impacting credit risk and expected credit loss. It considers available reasonable and supportive forwarding-looking information.

As at 31 December 2018, trade receivables that are individually significant have been separately assessed for impairment. The Group makes periodic assessments on the recoverability of the receivables based on the background and reputation of the customers, historical settlement records and past experience.

Majority of the Group's revenue is received from individual customers in relation to energy trading and speaker trading. The Group's trade receivables arise from sales to the customers of these business. In view of the history of business dealings with the debtors and the sound collection history of the receivables due from them, management believes that there is no material credit risk inherent in the Group's outstanding receivable balance due from these debtors saved for the debtor related to the impaired trade receivable disclosed in the below. Management makes periodic assessment on the recoverability of the trade and other receivables based on historical payment records, the length of overdue period, the financial strength of the debtors and whether there are any disputes with the debtors. The directors consider the Group's credit risk of these receivables to be low except for the impaired trade receivable disclosed in the below.

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.1 Financial risk factors *(Continued)*

#### *(b) Credit risk (Continued)*

Receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. As at 31 December 2018, the balance of loss allowance in respect of these individually assessed receivables was HK$21,137,000 (2017: HK$Nil).

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

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| Gross carrying amount | **42,274** | – |
| Loss allowance | **(21,137)** | – |
| Net carrying amount | **21,137** | – |

The credit quality of other receivables excluding prepayments has been assessed with reference to historical information about the counterparties default rates and financial position of the counterparties. The directors are of the opinion that the credit risk of other receivables is low due to the sound collection history of the receivables due from them. Therefore, expected credit loss rate of other receivables excluding prepayments is assessed to be close to zero and no provision was made as of 31 December 2018.

The credit risk on liquid funds is limited because the counterparts are banks with high credit-ratings and reputable banks in Hong Kong and PRC.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.1 Financial risk factors *(Continued)*

### *(c) Liquidity risk*

Prudent liquidity risk management implies maintaining sufficient cash and the availability of funding to meet obligations when due.

Management of the Group aims to maintain sufficient cash and cash equivalents or have available funding through an adequate amount of committed credit facilities to meet its operation needs and business commitments.

In the opinion of the directors, the Group should have adequate resources to meet its obligations in the forthcoming year on the basis set out in note 2.1.2 to the consolidated financial statements.

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

| | Carrying amount | Total contractual undiscounted cash flow | Within 1 year or on demand |
|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 |
| At 31 December 2018 | | | |
| Trade and other payables (excluding non-financial liabilities) | 129,642 | 129,642 | 129,642 |
| Borrowings | 396,532 | 400,076 | 400,076 |
| At 31 December 2017 | | | |
| Trade and other payables (excluding non-financial liabilities) | 568,753 | 568,753 | 568,753 |
| Borrowings | 309,013 | 313,848 | 313,848 |

## 3 FINANCIAL RISK MANAGEMENT *(Continued)*

### 3.2 Capital management

The Group manages its capital to ensure that entities in the Group will be able to continue as a going concern while maximising the return to shareholders through the optimisation of the debt and equity balance. In addition, the Group will balance its overall capital structure through the payment of dividends, new share issues as well as the issue of new debt or the redemption of existing debt. The Group's overall strategy remains unchanged from prior year.

The capital structure of the Group consists of debt, cash and cash equivalents and equity attributable to the owners of the Company, comprising issued share capital, share premium, reserves and retained earnings/(accumulated losses).

### 3.3 Fair value estimation

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

- Quoted prices (unadjusted) in active markets for identical assets or liabilities (level 1).
- Inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (that is, as prices) or indirectly (that is, derived from prices) (level 2).
- Inputs for the asset or liability that are not based on observable market data (that is, unobservable inputs) (level 3).

#### *(a) Financial assets and liabilities*

The fair value of the following financial assets and liabilities approximate their carrying amount as at dates of 31 December 2018 and 31 December 2017 due to their short term maturity:

- Trade and other receivables (excluding prepayments to suppliers and export tax rebate receivables)
- Cash and cash equivalents
- Rental deposits
- Trade and other payables (excluding advances from customers, payroll and welfare payables and taxes payables)
- Borrowings

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Fair value estimation *(Continued)*

### *(b) Non-financial assets and liabilities*

#### (i) Fair value hierarchy

The Group has classified its investment properties into the three levels prescribed under the accounting standards.

| | Note | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| **Level 3** | | | |
| Investment properties – leased office | 15 | **95,028** | 122,005 |
| **Total non-financial assets** | | **95,028** | 122,005 |

#### (ii) Valuation techniques used in determine level 3 fair value

As at 31 December 2018 and 31 December 2017, the valuations of the investment properties was carried out by Xiamen Chengdehang of Assets and Real Estate Land Evaluation Co., Ltd (廈門誠德行資產與房地產土地評估有限公司). The Group reviews the valuations performed by the independent valuer for financial reporting purposes. Discussions of valuation processes and results are held between management and the independent valuer at least annually.

#### (iii) Valuation inputs and relationship to fair value

The following table summarises the quantitative information about the significant unobservable inputs used in recurring level 3 fair value measurements.

| Unobservable inputs* | Inputs | Relationship of unobservable inputs to fair value |
|---|---|---|
| Risk-adjusted discount rate | 5% (2017: 3%) | The higher the discount rate, the lower the fair value |
| Expected vacancy rate | 4.17% (2017: 9.26%) | The higher the expected vacancy rate, the lower the fair value |
| Rental growth rate | 1.0% (2017: 2.5%) | The higher the rental growth rate, the higher the fair value |
| Market sales price | RMB17,000/$m^2$ to RMB18,452/$m^2$ (2017: RMB17,800/$m^2$ to RMB20,046/$m^2$) | The higher the market sales price, the higher the fair value |

* There were no significant inter-relationships between unobservable inputs that materially affect fair values.

# 3 FINANCIAL RISK MANAGEMENT *(Continued)*

## 3.3 Fair value estimation *(Continued)*

### *(b) Non-financial assets and liabilities* *(Continued)*

#### (iv) Fair value measurements using significant unobservable inputs (level 3)

The changes in level 3 items for the year ended 31 December 2018 for recurring fair value measurements are set out in Note 15.

There were no transfers among Level 1, Level 2 and 3 during the year.

# 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS

Estimates and judgements are continually evaluated and are based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

The Group makes estimates and assumptions concerning the future. The resulting accounting estimates will, by definition, seldom equal the related actual results. The estimates and assumptions that have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year are addressed below.

### (a) Revenue recognition of energy trading business – principal or agent

The Group is engaged in energy trading, mainly the trading of fuel oil and kerosene. The Group negotiates transaction prices with suppliers and customers separately. The goods are shipped from suppliers to an agreed destination where the customers can pick up directly. Determination of principal or agent for revenue recognition purpose involves significant judgement. The Group recognises revenue from trading of energy at gross amount as a principal based on the below fact pattern and judgement:

- The Group is responsible for fulfilling the terms of sales and purchase agreements and dealing with any disputes relating to the sales and purchase transactions, separately;

- Goods were shipped from suppliers to an agreed destination where customers could pick up directly. For energy trading, the risks related to the goods were transferred from suppliers to the Group and then to customers, when the goods are accepted by the Group and customers at the pick up place, respectively;

- The transaction prices were determined separately based on negotiations with customers and suppliers.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (b) Provision of ECL for trade receivables

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected losses for all trade receivables. To measure the expected credit losses, trade receivables have been grouped based on shared credit risk characteristics. Future cash flows for each group of receivables are estimated on the basis of historical loss experience, adjusted to reflect the effects of current conditions as well as forward looking information. Management has closely monitored the credit qualities and the collectability of the trade receivables. Trade receivables in financial difficulties are assessed individually for impairment to determine whether specific loss allowance provisions are required. The adoption of the simplified expected credit loss approach under HKFRS 9 has not resulted in any additional impairment loss for trade receivables as at 1 January 2018.

Included in the above provision for impairment of trade and other receivables is a provision for individually impaired trade receivables of approximately RMB18,520,000 (equivalent to HK$21,891,000). The individually impaired trade receivables related to customers that were in financial difficulties.

The information about provision of ECL for the Group's trade receivables are disclosed in notes 3.1(b) and 20.

### (c) Current tax and deferred tax

The Group is subject to income taxes in the PRC and in Hong Kong. Significant judgement is required in determining the provision for income taxes. There are some transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. The Group recognises liabilities for anticipated tax audit issues based on estimates of whether additional taxes will be due. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and provisions in the period in which such determination is made.

Deferred income tax assets and liabilities are determined using tax rates that are expected to apply when the related deferred income tax assets are realised or the deferred income tax liabilities are settled. The expected applicable tax rate is determined based on the enacted tax laws and regulations and the actual situation of the Group. The management of the Group will revise the expectation where the intending tax rate is different from the original expectation.

### (d) Impairment of prepayment

The Group's management determines the provision for impairment of prepayment. This estimate is based on the credit history of its suppliers and current market conditions. Management reassesses the provision on a regular basis by reviewing the utilisation of prepayment balance based on past credit history and prior knowledge of supplier insolvency and market volatilities. Details of impairment of prepayment please refer to note 20.

## 4 CRITICAL ACCOUNTING ESTIMATES AND JUDGEMENTS *(Continued)*

### (e) Estimation of the fair values of investment properties

The Group's leased office investment properties are initially measured at cost, and subsequently are carried at fair value. Changes in fair value are recorded in profit or loss. The Group engages external independent and qualified valuer to determine the fair value of the Group's investment properties at the end of every financial year. The valuation of the Group's investment properties is derived by making reference to recent comparable sales transactions available in the relevant property market ("**Market Approach**") and by discounting a projected cash flow series associated with the properties using risk-adjusted discount rates ("**Income Approach**"). The Group has adopted the weighted average results of the Income Approach and the Market Approach.

The valuations were dependent on certain key assumptions that require significant management judgement, including market selling price and fair market rents.

During the year ended 31 December 2018, a fair value loss of HK$22,130,000 (2017: fair value gain of HK$12,286,000) was recognized in 'other (losses)/gains — net' (Note 9).

Further information about the valuation of investment properties is provided in Note 3.3(b).

## 5 SEGMENT INFORMATION

The Company's board of directors is the Group's chief operating decision-maker. Management has determined the operating segments based on the information reviewed by the board of directors for the purposes of allocating resources and assessing performance.

The board of directors considers the business from business lines perspective, and assesses the performance of the Group in four business lines, (1) energy trading which comprises mainly the trading of fuel oil and kerosene, (2) speaker manufacturing, (3) speaker trading, and (4) oil tanker transportation (2017: three business lines: (1) energy trading which comprises mainly the trading of fuel oil and kerosene, (2) speaker manufacturing and (3) oil tanker transportation). The segments of speaker manufacturing and oil tanker transportation were classified as discontinued operations during the year.

The board of directors assesses the performance of the operating segments based on a measure of the segment results of the operating segments. Finance income or expenses, fair value changes on investment properties and the unallocated operating expenses are not allocated to segments since these activities are driven by the central function and the related income or expenses are undividable between segments.

The Group's deferred income tax assets, intangible assets, prepayment for non-current assets and investment properties are not considered to be segment assets and the Group's liabilities, borrowings, deferred income tax liabilities, and current income tax liabilities are not considered to be segment liabilities for reporting to the board of directors as they are managed on a central basis.

## 5 SEGMENT INFORMATION *(Continued)*

Segment information of continuing operations is as follows:

| | 2018 | | |
|---|---|---|---|
| | Energy trading HK$'000 | Speaker trading HK$'000 | Total HK$'000 |
| **Segment results** | | | |
| **Year ended 31 December** | | | |
| Disaggregated by timing of revenue recognition: | | | |
| At a point in time | **1,766,199** | **82,645** | **1,848,844** |
| Over time | **–** | **–** | **–** |
| | **1,766,199** | **82,645** | **1,848,844** |
| Segment loss | **(302,371)** | **(14,082)** | **(316,453)** |
| Rental income from investment properties | | | **335** |
| Fair value loss on investment properties | | | **(22,130)** |
| Unallocated operating expenses | | | **(9,257)** |
| Operating loss | | | **(347,505)** |
| Finance expenses — net | | | **(25,022)** |
| Loss before income tax | | | **(372,527)** |
| Income tax credit | | | **5,930** |
| Loss for the year | | | **(366,597)** |
| Depreciation charge | **711** | **161** | **872** |
| Capital expenditure | **458** | **–** | **458** |
| Impairment of trade receivables | **21,891** | **–** | **21,891** |
| Loss on disposal of property, plant and equipment | **271** | **–** | **271** |
| Impairment of prepayments | **285,952** | **–** | **285,952** |
| Loss on disposal of intangible assets | **–** | **598** | **598** |
| Written-off of inventories | **–** | **236** | **236** |
| **Assets** | | | |
| **As at 31 December** | | | |
| Segment assets | **515,838** | **52,093** | **567,931** |
| Unallocated assets | | | **1,050** |
| Investment properties | | | **95,028** |
| Total | | | **664,009** |
| **Liabilities** | | | |
| **As at 31 December** | | | |
| Segment liabilities | **177,399** | **8,004** | **185,403** |
| Unallocated liabilities | | | **15,107** |
| Borrowings | | | **396,532** |
| Current income tax liabilities | | | **4,076** |
| Deferred income tax liabilities | | | **190** |
| Total | | | **601,308** |

## 5 SEGMENT INFORMATION *(Continued)*

Segment information of continuing operations is as follows: *(Continued)*

| | 2017 | | |
|---|---|---|---|
| | Energy trading HK$'000 | Speaker trading HK$'000 | Total HK$'000 (Restated) |
| **Segment results** | | | |
| **Year ended 31 December** | | | |
| Disaggregated by timing of revenue recognition: | | | |
| At a point in time | 9,433,035 | 66,994 | 9,500,029 |
| Over time | – | – | – |
| | 9,433,035 | 66,994 | 9,500,029 |
| Segment (loss)/profit | 56,959 | (1,043) | 55,916 |
| Rental income from investment properties | | | 153 |
| Fair value gain on investment properties | | | 12,286 |
| Unallocated operating expenses | | | (6,302) |
| Operating profit | | | 62,053 |
| Finance expenses — net | | | (17,235) |
| Profit before income tax | | | 44,818 |
| Income tax expense | | | (15,664) |
| Profit for the year | | | 29,154 |
| Depreciation charge | 994 | 182 | 1,176 |
| Capital expenditure | 3,966 | – | 3,966 |
| **Assets** | | | |
| **As at 31 December** | | | |
| Segment assets | 1,090,231 | 43,192 | 1,133,423 |
| Unallocated assets | | | 720 |
| Deferred income tax assets | | | 284 |
| Intangible assets | | | 978 |
| Prepayment for non-current assets | | | 231 |
| Investment properties | | | 122,005 |
| Total | | | 1,257,641 |
| **Liabilities** | | | |
| **As at 31 December** | | | |
| Segment liabilities | 540,628 | 2,317 | 542,945 |
| Unallocated liabilities | | | 3,275 |
| Borrowings | | | 309,013 |
| Current income tax liabilities | | | 4,004 |
| Deferred income tax liabilities | | | 8,683 |
| Total | | | 867,920 |

## 5 SEGMENT INFORMATION *(Continued)*

Revenue from external customers by country, based on the destination of the customers is as follows:

| Continuing operation | 2018 HK$'000 | 2017 HK$'000 (Restated) |
|---|---|---|
| China | **1,769,860** | 9,494,186 |
| Japan | **78,766** | 5,574 |
| US | **218** | 64 |
| Other countries | **–** | 205 |
| **Total** | **1,848,844** | 9,500,029 |

Revenue from major customers which individually accounts for 10% or more of the Group's revenue from continuing operation is as follows:

| | 2018 HK$'000 |
|---|---|
| Revenue from customer attributable to energy trading Company A | **203,849** |
| Revenue from customer attributable to energy trading Company B | **198,610** |
| Revenue from customer attributable to energy trading Company C | **196,475** |
| Revenue from customer attributable to energy trading Company D | **185,743** |

| | 2017 HK$'000 |
|---|---|
| Revenue from customer attributable to energy trading Company E | 3,373,494 |
| Revenue from customer attributable to energy trading Company F | 1,964,041 |

## 5 SEGMENT INFORMATION *(Continued)*

Non-current assets, other than financial instruments and deferred income tax assets by country is as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Mainland China | **96,196** | 127,096 |
| Hong Kong | **204** | 45,716 |
| | **96,400** | 172,812 |

## 6 EXPENSES BY NATURE

| | 2018 HK$'000 | 2017 HK$'000 (Restated) |
|---|---|---|
| **Continuing operations** | | |
| Changes in inventories of finished goods and work in progress | **(8,710)** | – |
| Cost of goods sold | **1,837,608** | 9,408,416 |
| Employee benefit expense (Note 7) | **23,640** | 12,054 |
| Operating lease payments | **3,131** | 2,063 |
| Storage fees | **828** | 10,128 |
| Customs, levies and other taxes | **177** | 7,883 |
| Utilities | **45** | 5 |
| Depreciation (Note 14) | **872** | 1,176 |
| Research and development cost | **3,068** | 1,848 |
| Repairs and maintenance expenses | **55** | 8 |
| Legal and professional fees | **2,638** | 1,801 |
| Auditors' remuneration — annual report | **552** | 1,480 |
| Auditors' remuneration — others | **10** | 486 |
| Written-off of inventories | **236** | – |
| Other expenses | **5,249** | 3,875 |
| Total cost of sales, distribution expenses and administrative expenses | **1,869,399** | 9,451,223 |

## 6 EXPENSES BY NATURE *(Continued)*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Discontinued operations** | | |
| Changes in inventories finished goods and work in progress | **54,167** | (33,527) |
| Raw materials and consumables used | **111,013** | 397,768 |
| Employee benefit expense (Note 7) | **44,099** | 86,960 |
| Port disbursement and refueling figures | **12,204** | 19,131 |
| Operating lease payments | **4,440** | 9,934 |
| Customs, levies and other taxes | **1,015** | 1,942 |
| Utilities | **2,221** | 4,471 |
| Depreciation (Note 14) | **1,614** | 2,922 |
| Research and development cost | **–** | 1,423 |
| Repairs and maintenance expenses | **624** | 3,198 |
| Legal and professional fees | **317** | 831 |
| Auditors' remuneration — others | **71** | 35 |
| Written-off of inventories/(Reversal of inventories write-down) | **118** | (100) |
| Other expenses | **10,396** | 11,671 |
| Total cost of sales, distribution expenses and administrative expenses | **242,299** | 506,659 |

## 7 EMPLOYEE BENEFIT EXPENSE

| **Continuing operations** | 2018<br>HK$'000 | 2017<br>HK$'000<br>(Restated) |
|---|---|---|
| Wages and salaries | **23,088** | 11,114 |
| Social security and retirement benefit cost | **462** | 297 |
| Other staff welfare | **90** | 643 |
| Total employee benefit expense | **23,640** | 12,054 |

## 7 EMPLOYEE BENEFIT EXPENSE *(Continued)*

| Discontinued operations | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Wages and salaries | **40,748** | 80,300 |
| Social security and retirement benefit cost | **2,803** | 6,107 |
| Other staff welfare | **548** | 553 |
| Total employee benefit expense | **44,099** | 86,960 |

**(a) Five highest paid individuals**

The five individuals whose emoluments were the highest in the Group for the year include one (2017: one) director whose emoluments are reflected in the analysis shown in Note 34. The emoluments payable to the remaining four (2017: four) individuals during the year are as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits | **6,821** | 9,061 |
| Retirement benefit scheme contributions | **65** | 56 |
| Bonuses | **10,649** | – |
| | **17,535** | 9,117 |

The emoluments fell within the following bands:

| | Number of Individuals 2018 | Number of individuals 2017 |
|---|---|---|
| Emolument bands (in HK$) | | |
| Within HK$1,000,000 | **2** | 2 |
| HK$1,000,000 – HK$1,500,000 | **–** | 1 |
| Over HK$2,500,000 | **2** | 1 |

## 8 OTHER INCOME

| | 2018 HK$'000 | 2017 HK$'000 (Restated) |
|---|---|---|
| **Continuing operations** | | |
| Government grant related to foreign capital injection | **240** | – |
| Government grant related to income | **2,359** | 1,752 |
| Rental income from investment properties | **335** | 153 |
| | **2,934** | 1,905 |
| **Discontinued operations** | | |
| Government grant related to income | **18** | 1,132 |

## 9 OTHER (LOSSES)/GAINS – NET

| | 2018 HK$'000 | 2017 HK$'000 (Restated) |
|---|---|---|
| **Continuing operations** | | |
| Fair value (losses)/gains on investment properties | **(22,130)** | 12,286 |
| Net foreign exchange gain/(loss) | **637** | (170) |
| Loss on disposal of property, plant and equipment | **(271)** | – |
| Loss on disposal of intangible assets | **(598)** | – |
| Written-off of other payable | **316** | – |
| Other gains/(losses) | **5** | (774) |
| | **(22,041)** | 11,342 |
| **Discontinued operations** | | |
| Net foreign exchange loss | **(1,990)** | (4,745) |
| Gain/(loss) on disposal of property, plant and equipment | **1,880** | (49) |
| Other gains | **247** | 520 |
| Impairment loss of property, plant and equipment | **(116)** | – |
| | **21** | (4,274) |

## 10 FINANCE INCOME AND EXPENSES

| | **2018** **HK$'000** | 2017 HK$'000 (Restated) |
|---|---|---|
| **Continuing operations** | | |
| Interest expense: | | |
| – Bank borrowings | **(12,777)** | (10,322) |
| – Notes payable | **(13,755)** | (7,596) |
| Finance expenses | **(26,532)** | (17,918) |
| Interest income | **1,510** | 683 |
| Finance income | **1,510** | 683 |
| Finance expenses – net | **(25,022)** | (17,235) |
| **Discontinued operations** | | |
| Interest income | **12** | 32 |
| Finance income | **12** | 32 |

## 11 INCOME TAX (CREDIT)/EXPENSE

| | **2018** **HK$'000** | 2017 HK$'000 (Restated) |
|---|---|---|
| **Continuing operations** | | |
| Current income tax: | | |
| Current income tax on profits for the year – Hong Kong | **–** | – |
| Overprovision in prior years – Hong Kong | **(1,271)** | (3,074) |
| | **(1,271)** | (3,074) |
| Current income tax on profits for the year – PRC | **1,218** | 13,613 |
| Underprovision in prior years – PRC | **796** | – |
| | **2,014** | 13,613 |
| Total current income tax | **743** | 10,539 |
| Deferred income tax (Note 28) | **(6,673)** | 5,125 |
| Income tax (credit)/expense | **(5,930)** | 15,664 |

## 11 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Discontinued operations** | | |
| Current income tax: | | |
| Current income tax on profits for the year – Hong Kong | **3,075** | 1,271 |
| Overprovision in prior years – Hong Kong | **–** | (557) |
| | **3,075** | 714 |
| Current income tax on profits for the year – PRC | **302** | 1,936 |
| Underprovision in prior years – PRC | **716** | 787 |
| | **1,018** | 2,723 |
| Total current income tax | **4,093** | 3,437 |
| Deferred income tax (Note 28) | **(671)** | (647) |
| Income tax expense | **3,422** | 2,790 |

Hong Kong profits tax has been provided for at the rate of 16.5% (2017:16.5%) on the estimated assessable profits of the Group's subsidiaries in Hong Kong for the year.

Taxation on PRC income has been calculated on the estimated assessable profit for the year at the rates of taxation prevailing in the PRC in which the Group operates. The Company's subsidiaries incorporated in the PRC are subject to Corporate Income Tax ("**CIT**") at the rate of 25% (2017: 25%) except for Dongguan Shinhint Audio Technology Limited (Discontinued Operations) which are subject to CIT at the rate of 15% (2017: 15%). Dongguan Shinhint Audio Technology Limited obtained the "Certificate of High and New Technology Enterprises" issued by Guangdong Provincial Department of Science and Technology, Department of Finance, State Administration of Taxation and Local Administration of Taxation. The certificate is valid for 3 years from October 2015 to October 2018.

Pursuant to the PRC Enterprise Income Tax Law and its detailed implementation rules, the profits of the PRC subsidiaries of the Group derived since 1 January 2008 will be subject to withholding tax upon the distribution of such profits to foreign investors. Deferred income tax liabilities have been provided for at the applicable tax rate of 10% in this regard based on the expected dividends to be distributed from the Group's PRC subsidiaries in the foreseeable future in respect of the profits generated since 1 January 2008 (Note 28).

## 11 INCOME TAX (CREDIT)/EXPENSE *(Continued)*

The tax on the Group's profit before tax differs from the theoretical amount that would arise using the weighted average tax rate applicable to profits of the consolidated entities as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000<br>(Restated) |
|---|---|---|
| **Continuing operations** | | |
| (Loss)/profit before income tax | **(372,527)** | 44,818 |
| Tax calculated at domestic tax rates applicable to (loss)/profits in the respective countries | **(89,953)** | 13,690 |
| Tax effects of: | | |
| – Expenses not deductible for tax purpose | **316** | 1,128 |
| – Tax losses for which no deferred income tax asset was recognised | **9,504** | 1,867 |
| – Overprovision in prior years | **(476)** | (3,074) |
| – Withholding tax on unremitted earnings | **(3,532)** | 2,055 |
| – Temporary differences not recognised | **78,193** | – |
| – Tax effect of income not taxable for tax purpose | **(58)** | – |
| – Others | **76** | (2) |
| Income tax (credit)/expense | **(5,930)** | 15,664 |

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| **Discontinued operations** | | |
| Profit before income tax | **17,091** | 20,489 |
| Tax calculated at domestic tax rates applicable to profits in the respective countries | **2,796** | 4,399 |
| Tax effects of: | | |
| – Expenses not deductible for tax purpose | **48** | 5 |
| – Tax losses for which no deferred income tax asset was recognised | **–** | 221 |
| – Underprovision in prior years | **717** | 230 |
| – Withholding tax on unremitted earnings | **59** | 521 |
| – Temporary differences not recognised | **91** | – |
| – Tax effect of prior years' unrecognised tax loss utilised in the year | **(91)** | – |
| – Tax effect of progress rate | **(165)** | – |
| – Tax effect of income not taxable for tax purpose | **(20)** | – |
| – Others | **(13)** | (2,586) |
| Income tax expense | **3,422** | 2,790 |

## 12 (LOSS)/EARNINGS PER SHARE

The calculation of basic and diluted (loss)/earnings per share attributable to owners of the Company is based on the following data:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| | | (Restated) |
| (Loss)/earnings for the purpose of calculation of basic and diluted (loss)/earnings per share | | |
| Continuing operations | **(366,597)** | 29,154 |
| Discontinued operations | **14,786** | 17,699 |
| | **(351,811)** | 46,853 |
| | **'000** | '000 |
| | | (Restated) |
| Weighted average number of ordinary shares at 31 December for the purpose of basic and diluted (loss)/earnings per share | **3,094,517** | 3,094,517 |
| (Loss)/earnings per share | | |
| – Basic (loss)/earnings per share (in cents per share) | | |
| Continuing operations | **(11.85)** | 0.94 |
| Discontinued operations | **0.48** | 0.57 |
| | **(11.37)** | 1.51 |
| – Diluted (loss)/earnings per share (in cents per share) | | |
| Continuing operations | **(11.85)** | 0.94 |
| Discontinued operations | **0.48** | 0.57 |
| | **(11.37)** | 1.51 |

Basic (loss)/earnings per share is calculated by dividing the (loss)/profit attributable to owners of the Company by the weighted average number of ordinary shares in issue during the year. The weighted average numbers of ordinary shares for calculating basic earnings per share for the twelve months ended 31 December 2017 had been retrospectively adjusted to reflect the share subdivision with effect from 17 January 2018 (Note 22).

For the year ended 31 December 2018 and 2017, the Company's share options granted (Note 24) have no dilutive effect on the (loss)/earnings per share. Calculations are done to determine the number of shares that could have been acquired at fair value (determined by using average market share price of the Company's shares for the twelve months ended 31 December 2018) based on the monetary value of the subscription rights attached to outstanding share options. Diluted (loss)/earnings per share is therefore equal to basic (loss)/earnings per share.

## 13 SUBSIDIARIES

The following is a list of the principal subsidiaries of the Group at 31 December 2018:

| Company | Place of incorporation | Principal activities | Particulars of issued share capital/ registered capital | Proportion of shareholding (%) |
|---|---|---|---|---|
| **Continuing operations** | | | | |
| **Direct subsidiaries:** | | | | |
| Huiyuan Developments Limited | British Virgin Islands | Investment holding | US$1 | 100 |
| Shinhint Industrial Holdings Limited ("**Shinhint Industrial**") | British Virgin Islands | Investment holding | US$1 | 100 |
| **Indirect subsidiaries:** | | | | |
| Blessing Garden Limited | British Virgin Islands | Investment holding | US$1 | 100 |
| Chuang Hui Group limited | British Virgin Islands | Investment holding | US$1 | 100 |
| Silver Lane Global Limited | British Virgin Islands | Investment holding | US$1 | 100 |
| Shinhint Industries Limited | Hong Kong | Investment holding | HK$5,000,000 | 100 |
| Fully Sino Industrial Limited | Hong Kong | Investment holding | HK$1 | 100 |
| Max Achieve Holdings Limited | Hong Kong | Trading of speaker units | HK$1 | 100 |
| Perfect Goal Holdings Limited | Hong Kong | Trading of speaker units | HK$1 | 100 |
| Yuhua Tankers Corporation Limited | Hong Kong | General trading and investment | HK$1 | 100 |
| Yuhua Energy (China) Limited | Hong Kong | Trading of energy products | HK$1 | 100 |
| Fujian Yuhua Assets Management Co., Ltd.* (裕華資產管理(廈門)有限公司) (Deregistered in January 2019) | PRC | Asset Management | US$15,000,000 | 100 |
| Qianhai Yuhua Energy (Shenzhen) Co., Ltd.* (前海裕華能源(深圳)有限公司) (Deregistered in January 2019) | PRC | Trading of energy products | RMB200,000,000 | 100 |
| Yuhua Dongshan Energy Co., Ltd.* (裕華東山能源有限公司) | PRC | Trading of energy products | RMB20,000,000 | 100 |

## 13 SUBSIDIARIES *(Continued)*

| Company | Place of incorporation | Principal activities | Particulars of issued share capital/ registered capital | Proportion of shareholding (%) |
|---|---|---|---|---|
| **Continuing operations** (Continued) | | | | |
| Yuhua Energy Holdings Group (Fujian) Co., Ltd.* (裕華能源控股集團(福建)有限公司) | PRC | Trading of energy products | HK$1,500,000,000 | 100 |
| Yuhua Energy (Xiamen) Co., Ltd.* (裕華能源(廈門)有限公司) | PRC | Trading of energy products | RMB150,000,000 | 100 |
| Yuhua Energy (Zhangzhou) Limited* (裕華能源(漳州)有限公司) (Deregistered in January 2019) | PRC | Trading of energy products | RMB1,000,000,000 | 100 |
| Yuhua Finance Lease (Xiamen) Co., Ltd.* (裕華融資租賃(廈門)有限公司) (Deregistered in January 2019) | PRC | Finance Lease | US$50,000,000 | 100 |
| Yuhua (Shanghai) Trading Co., Ltd.* (裕華(上海)貿易有限公司) | PRC | Oil trade center | RMB100,000,000 | 100 |
| **Discontinued operations** | | | | |
| Yuhua Energy (Hong Kong) Limited | Hong Kong | Oil tanker transportation | HK$1 | 100 |
| Crown Million Industries (International) Limited # | Hong Kong | Investment holding and trading of speaker units | HK$10,000 | 100 |
| DongGuan Shinhint Audio Technology Limited* (東莞成謙有限公司) # | PRC | Manufacturing of speaker units | HK$10,000,000 | 100 |

Notes:

1. None of the subsidiaries of the Group had issued any debt securities at the end of the reporting period or at any time during both years.

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

# Subsidiaries disposed of on 4 June 2018 (Note 35(a)(1)).

* For identification purpose only.

## 14 PROPERTY, PLANT AND EQUIPMENT

| | Plant and machinery HK$'000 | Oil tanker HK$'000 | Moulds HK$'000 | Furniture fixtures and office equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **At 1 January 2017** | | | | | | | |
| Cost | 5,413 | – | 318 | 7,311 | 11,740 | 3,098 | 27,880 |
| Accumulated depreciation | (3,213) | – | (271) | (5,979) | (11,004) | (1,441) | (21,908) |
| **Net book value** | 2,200 | – | 47 | 1,332 | 736 | 1,657 | 5,972 |
| **Year ended 31 December 2017** | | | | | | | |
| Opening net book amount | 2,200 | – | 47 | 1,332 | 736 | 1,657 | 5,972 |
| Additions | 62 | 45,795 | 204 | 581 | 235 | 595 | 47,472 |
| Disposal (Note 30(a)) | (20) | – | – | (31) | – | – | (51) |
| Depreciation charge (Note 6) | (480) | (2,099) | (33) | (303) | (449) | (734) | (4,098) |
| Currency translation differences | 155 | – | 3 | 96 | – | 49 | 303 |
| **Closing net book amount** | 1,917 | 43,696 | 221 | 1,675 | 522 | 1,567 | 49,598 |
| **At 31 December 2017** | | | | | | | |
| Cost | 5,784 | 45,795 | 524 | 8,110 | 12,679 | 3,785 | 76,677 |
| Accumulated depreciation | (3,867) | (2,099) | (303) | (6,435) | (12,157) | (2,218) | (27,079) |
| **Net book amount** | 1,917 | 43,696 | 221 | 1,675 | 522 | 1,567 | 49,598 |

## 14 PROPERTY, PLANT AND EQUIPMENT *(Continued)*

| | Plant and machinery HK$'000 | Oil tanker HK$'000 | Moulds HK$'000 | Furniture fixtures and office equipment HK$'000 | Leasehold improvements HK$'000 | Motor vehicles HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **Year ended 31 December 2018** | | | | | | | |
| Opening net book amount | 1,917 | 43,696 | 221 | 1,675 | 522 | 1,567 | 49,598 |
| Additions | – | – | 11 | 500 | 197 | 88 | 796 |
| Disposal (Note 30(a)) | (1,004) | (42,360) | – | (536) | (208) | (51) | (44,159) |
| Impairment | – | – | – | – | – | (116) | (116) |
| Disposal of subsidiaries (Note 35(a)(4)) | (848) | – | (217) | (812) | (394) | (44) | (2,315) |
| Depreciation charge (Note 6) | (119) | (1,336) | (20) | (312) | (123) | (576) | (2,486) |
| Currency translation differences | 54 | – | 5 | 11 | 6 | (22) | 54 |
| **Closing net book amount** | – | – | – | 526 | – | 846 | 1,372 |
| **At 31 December 2018** | | | | | | | |
| Cost | – | – | – | 1,559 | – | 2,199 | 3,758 |
| Accumulated depreciation | – | – | – | (1,033) | – | (1,353) | (2,386) |
| **Net book amount** | – | – | – | 526 | – | 846 | 1,372 |

Depreciation expenses for the year ended 31 December 2018 of HK$1,614,000 (2017: HK$2,922,000) and HK$872,000 (2017: HK$1,176,000) have been charged in 'discontinued operations' and 'continuing operations', respectively.

Depreciation expenses of continuing operations for the year ended 31 December 2018 and 31 December 2017 have all been charged in 'administrative expenses'.

As at 31 December 2018, there was no property, plant and equipment pledged as security (2017: HK$Nil).

## 15 INVESTMENT PROPERTIES

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Investment properties — at fair value | | |
| Opening balance at 1 January | **122,005** | – |
| Transfer from prepayment for non-current assets | **–** | 99,208 |
| Capitalised subsequent expenditure | **–** | 3,026 |
| Fair value (losses)/gains on investment properties (Note 9) | **(22,130)** | 12,286 |
| Currency translation differences | **(4,847)** | 7,485 |
| Closing balance at 31 December | **95,028** | 122,005 |

The investment properties of the Group are certain office floors with area of 6,344 sqm acquired from a related company in September 2015. The properties are located in Xiamen city of Fujian Province, the PRC.

The amounts recognised in profit or loss for investment properties are as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Rental income (Note 8) | **335** | 153 |
| Direct operating expenses | **(34)** | (84) |
| Fair value (losses)/gains on investment properties (Note 9) | **(22,130)** | 12,286 |

The investment properties have been pledged as security for the borrowings of the Group as disclosed in Note 27.

Some of the investment properties are leased to tenants under long-term operating leases with rentals payable monthly. Minimum lease payments receivable under non-cancellable operating leases of investment properties not recognised in the financial statements are as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Within one year | **362** | 341 |
| Later than one year but not later than 5 years | **302** | 681 |
| | **664** | 1,022 |

## 16 INTANGIBLE ASSETS

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Club membership** | | |
| Cost and carrying amount | | |
| Opening balance at 1 January | **978** | 978 |
| Disposal | **(978)** | – |
| Cost and carrying amount | **–** | 978 |

The club membership represents debentures of a golf club held on a long-term basis. It is considered by the management of the Group as having an indefinite useful life. It will not be amortised until the useful life is determined to be finite upon reassessment of the useful life annually by the management.

As at 31 December 2017, the club membership was tested for impairment by comparing its carrying amount with its recoverable amount, which was determined based on fair value less costs of disposal in the market. The management of the Group determined that no impairment loss was necessary.

The club membership was disposed at approximately HK$380,000 (net of transaction cost) on 27 August 2018. The loss on disposal of intangible assets was HK$598,000 (note 9).

## 17 PREPAYMENT FOR NON-CURRENT ASSETS

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Prepayments for purchase of: | | |
| Office software and others | **–** | 231 |
| | **–** | 231 |

## 18 FINANCIAL INSTRUMENTS BY CATEGORY

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Assets as per statement of financial position** | | |
| **Financial assets at amortised cost (2017: Loans and receivables)** | | |
| Trade and other receivables (excluding prepayments to suppliers and export tax rebate receivables) | **114,230** | 260,966 |
| Cash and cash equivalents | **16,462** | 20,323 |
| Restricted cash | **19,694** | 103,360 |
| Rental deposits | **–** | 611 |
| | **150,386** | 385,260 |

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Liabilities as per statement of financial position** | | |
| **Other financial liabilities at amortised cost** | | |
| Borrowings | **396,532** | 309,013 |
| Trade and other payables (excluding advances from customers, payroll and welfare payables and taxes payables) | **129,642** | 565,730 |
| | **526,174** | 874,743 |

## 19 INVENTORIES

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Raw materials | **–** | 11,598 |
| Work in progress | **–** | 8,212 |
| Finished goods | **8,710** | 45,955 |
| | **8,710** | 65,765 |

## 19 INVENTORIES *(Continued)*

The cost of inventories (continuing operations) recognised as expense and included in 'cost of sales' amounted to HK$1,829,134,000 (2017: HK$9,408,416,000) which included inventory write-down of HK$236,000 (2017: HK$Nil) (Note 6).

The cost of inventories (discontinued operations) recognised as expense and included in 'cost of sales' amounted to HK$165,298,000 (2017: HK$364,141,000) which included inventory write-down of HK$118,000 (2017: reversal of inventory write-down of HK$100,000) (Note 6).

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Trade receivables from third parties | **131,089** | 258,071 |
| Trade receivables from related parties (Note 32(c)) | **187** | 133 |
| Less: allowance for impairment of trade receivables | **(21,137)** | – |
| Trade receivables — net | **110,139** | 258,204 |
| Prepayment to suppliers | **683,267** | 896,204 |
| Less: allowance for impairment of prepayment to suppliers | **(276,097)** | – |
| Prepayment to suppliers — net | **407,170** | 896,204 |
| Export tax rebate receivables | **1,343** | 9,805 |
| Other receivables and deposits | **4,091** | 2,762 |
| Total | **522,743** | 1,166,975 |

The Group's normally allows a credit period of 30 days to 90 days for speaker trading business and cash on delivery for energy trading business to its customers and may further extend the credit period to selected customers depending on their trade volume and settlement history. At 31 December 2018 and 2017, the aging analysis of trade receivables based on invoice date was as follows:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| Within 30 days | **9,787** | 99,877 |
| 31 to 60 days | **9,018** | 101,832 |
| 61 to 90 days | **7,605** | 56,381 |
| 91 to 120 days | **–** | 114 |
| 121 to 365 days | **83,620** | – |
| Over 365 days | **109** | – |
| | **110,139** | 258,204 |

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

Included in the above provision for impairment of trade and other receivables is a provision for individually impaired trade receivables and prepayments of approximately RMB18,520,000 (equivalent to HK$21,891,000) and RMB241,916,000 (equivalent to HK$285,952,000), respectively. The individually impaired trade receivables and prepayments related to customers and suppliers that were in financial difficulties. The directors of the Company estimated the amounts of impairment is after taking into consideration the below events:

It came to the attention of management that there were media reports about the liquidity problem of a customer, Zhangjiagang Free Trade Zone Baota Petrochemical Co., Ltd* (張家港保税區寶塔石化有限公司) and a supplier, Shanghai Baota Petrochemical Co., Ltd* (上海寶塔石化有限公司), and their performance on subsequent settlements of the Group's trade receivables and prepayments respectively.

As at 31 December 2018, trade receivables of HK$94,573,000 (2017: HK$15,875,000) were past due but not impaired. The Group does not hold any collateral over these balances. Except for the above individually impaired customers, the remaining balances that were past due but not impaired related to a number of independent customers that have a good trade record with the Group. Based on the past experience, the management estimated that the carrying amounts can be fully recovered, as there has not been a significant change in credit quality and there has been substantial settlement after the end of the reporting period. Accordingly, the Group considers the amounts due from these customers are recoverable, therefore, no impairment loss is considered necessary. The aging analysis of these trade receivables is as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Overdue by: | | |
| Within 30 days | **10,740** | 14,982 |
| 31 to 60 days | **104** | 779 |
| 61 to 90 days | **–** | 114 |
| 91 to 120 days | **–** | – |
| 121 to 365 days | **83,620** | – |
| Over 365 days | **109** | – |
| | **94,573** | 15,875 |

The Group applies the simplified approach to provide for expected credit losses prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for trade receivables. To measure the expected credit losses, these receivables have been grouped based on shared credit risk characteristics and the aging from billing. See Note 3.1(b) for further information about expected credit loss provision.

* For identification purpose only

## 20 TRADE AND OTHER RECEIVABLES AND PREPAYMENTS *(Continued)*

See note 2.13 for information about how impairment losses are calculated.

Movements in the provision for impairment of trade receivables that are assessed for impairment are as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| At 1 January | **–** | – |
| Provision for impairment recognised during the year | **21,891** | – |
| Currency translation differences | **(754)** | – |
| At 31 December | **21,137** | – |

The Group's prepayments to suppliers are mainly related to the energy trading business. The Group pays prepayment to suppliers to secure the supply of fuel oil and kerosene. The prepayments are normally utilised for a period of 30 to 90 days.

The carrying amounts of the Group's trade and other receivables and prepayments are denominated in the following currencies:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| RMB | **494,795** | 965,395 |
| US$ | **23,594** | 198,743 |
| HK$ | **4,354** | 2,837 |
| | **522,743** | 1,166,975 |

## 21 CASH AND BANK BALANCES

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Cash and cash equivalents** | | |
| Cash on hand and at bank | **16,462** | 20,323 |
| **Restricted cash** | | |
| Deposits at banks | **19,694** | 103,360 |
| Total of cash and bank balances | **36,156** | 123,683 |

The cash and cash equivalents are denominated in the following currencies:

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| US$ | **1,637** | 11,274 |
| RMB | **425** | 4,486 |
| HK$ | **14,356** | 4,516 |
| Other currencies | **44** | 47 |
| | **16,462** | 20,323 |

The restricted cash as at 31 December 2018 of HK$19,694,000 (2017: HK$103,360,000) were restricted deposits held at bank as deposit and pledge for bills payables of the Group (Note 25).

## 22 SHARE CAPITAL

| | Number of shares | Share capital |
|---|---|---|
| | | HK$'000 |
| Ordinary shares of HK$0.00125 each: | | |
| Authorised: | | |
| As at 1 January 2017 | 4,000,000,000 | 20,000 |
| Share subdivision (note b) | 4,000,000,000 | – |
| As at 31 December 2017 | **8,000,000,000** | **20,000** |
| Share subdivision (note a) | **8,000,000,000** | **–** |
| As at 31 December 2018 | **16,000,000,000** | **20,000** |
| Issued and fully paid: | | |
| As at 1 January 2017 | 773,629,352 | 3,868 |
| Share subdivision (note b) | 773,629,352 | – |
| As at 31 December 2017 | **1,547,258,704** | **3,868** |
| Share subdivision (note a) | **1,547,258,704** | **–** |
| As at 31 December 2018 | **3,094,517,408** | **3,868** |

*Notes:*

(a) Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 16 January 2018, each of the issued and unissued shares of par value of HK$0.0025 in the share capital of the Company was subdivided into two subdivided shares of par value of HK$0.00125 each with effect from 17 January 2018. Accordingly, the number of issued ordinary shares of the Company was increased from 1,547,258,704 shares to 3,094,517,408 shares since 17 January 2018.

(b) Pursuant to an ordinary resolution passed at an extraordinary general meeting of the Company held on 26 April 2017, each of the issued and unissued shares of par value of HK$0.005 in the share capital of the Company was subdivided into two subdivided shares of par value of HK$0.0025 each with effect from 27 April 2017. Accordingly, the number of issued ordinary shares of the Company was increased from 773,629,352 shares to 1,547,258,704 shares since 27 April 2017.

## 23 OTHER RESERVES

| | Share premium HK$'000 | Special reserve HK$'000 | Statutory reserve HK$'000 | Exchange reserve HK$'000 | Share option reserve HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|
| At 1 January 2017 | 151,656 | 4,950 | 8,571 | (34,135) | 32,895 | 163,937 |
| Currency translation differences | – | – | – | 33,222 | – | 33,222 |
| Appropriation to statutory reserve | – | – | 6,002 | – | – | 6,002 |
| At 31 December 2017 | 151,656 | 4,950 | 14,573 | (913) | 32,895 | 203,161 |
| At 1 January 2018 | **151,656** | **4,950** | **14,573** | **(913)** | **32,895** | **203,161** |
| Currency translation differences | **–** | **–** | **–** | **(11,958)** | **–** | **(11,958)** |
| Reclassification of exchange reserve upon disposal of subsidiaries | **–** | **–** | **–** | **(1,117)** | **–** | **(1,117)** |
| Reclassification of statutory reserve upon disposal of subsidiaries | **–** | **–** | **(6,402)** | **–** | **–** | **(6,402)** |
| Appropriation to statutory reserve | **–** | **–** | **(441)** | **–** | **–** | **(441)** |
| At 31 December 2018 | **151,656** | **4,950** | **7,730** | **(13,988)** | **32,895** | **183,243** |

Statutory reserve comprises statutory surplus reserve of the subsidiary companies in the PRC. The Company's subsidiaries incorporated in the PRC are required to make appropriations to statutory reserve from their profit for the year after offsetting accumulated losses carried forward from prior years as determined under the PRC accounting regulations and before distribution to shareholders. The percentages to be appropriated to such statutory reserve are determined according to the relevant regulations in the PRC at rate of 10% or at the discretion of the board of directors of the PRC subsidiaries, and further appropriation is optional when the accumulated fund is 50% or more of the registered capital of the subsidiaries.

## 24 SHARE-BASED PAYMENTS

On 25 June 2005, a share option scheme (the "**Share Option Scheme**") was approved and adopted by the shareholders of the Company. The particulars of the Share Option Scheme are as follows:

### Purpose

To enable the Company to grant options to selected eligible participants as incentives or rewards for their contributions to the Group.

### Eligible Participants

Eligible participants of the Share Option Scheme include any director or officer or full time or part time employee of or any person who has accepted an employment offer (whether full time or part time) and other persons and parties as defined in the scheme document.

### Total number of ordinary shares available for issue

The total number of ordinary shares available for issue under the Share Option Scheme and any other schemes must not exceed 10% of the shares of the Company in issue at the date of shareholders' approval of the Share Option Scheme.

## 24 SHARE-BASED PAYMENTS *(Continued)*

**Maximum entitlement of each eligible participant**

The maximum number of ordinary shares in respect of which options may be granted to each eligible participant in any 12-month period up to the date of grant is not permitted to exceed 1% of the ordinary shares in issue at the date of grant without prior approval from the Company's shareholders.

**Period within which the ordinary shares must be taken up under a share option**

Within 10 years from the date of grant of the share option or such shorter period as the board of directors of the Company determines at the time of grant.

Details of the movement of the outstanding share options issued under the Share Option Scheme are as follows:

***For the year ended 31 December 2018***

| | | | | | Number of share options | | |
|---|---|---|---|---|---|---|---|
| **Category of participants** | **Date of grant** | **Exercise price after (before) share subdivision** | **Vesting date** | **Exercisable period** | **As at 01/01/2018** | **Adjustment on share (a)** | **As at 31/12/2018** |
| **Employees** | **19/06/2015** | **HK$0.64125 (HK$1.2825)** | **19/06/2015** | **19/06/2015 – 18/06/2025** | **61,600,000** | **61,600,000** | **123,200,000** |

***For the year ended 31 December 2017***

| | | | | | Number of share options | | |
|---|---|---|---|---|---|---|---|
| Category of participants | Date of grant | Exercise price after (before) share subdivision | Vesting date | Exercisable period | As at 01/01/2017 | Adjustment on share (b) | As at 31/12/2017 |
| Employees | 19/06/2015 | HK$1.2825 (HK$2.565) | 19/06/2015 | 19/06/2015 – 18/06/2025 | 30,800,000 | 30,800,000 | 61,600,000 |

(a) Pursuant to the subdivision of ordinary shares of the Company effective on 17 January 2018 as mentioned in Note 22, the number of shares and the exercise price related to the share options granted on 19 June 2015 were adjusted accordingly to 123,200,000 shares and HK$0.64125 respectively.

(b) Pursuant to the subdivision of ordinary shares of the Company effective on 27 April 2017 as mentioned in Note 22, the number of shares and the exercise price related to the share options granted on 19 June 2015 were adjusted accordingly to 61,600,000 shares and HK$1.2825 respectively.

## 25 TRADE AND OTHER PAYABLES

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Trade payables to third parties | **53,625** | 279,567 |
| Trade payables to related parties (Note 32(c)) | **284** | 6 |
| Trade payables | **53,909** | 279,573 |
| Bills payables | **55,923** | 193,178 |
| Advances from customers | **–** | 198,585 |
| Payroll and welfare payables | **1,077** | 16,528 |
| Amounts due to related parties (Note 32(c)) | **7,051** | 74,875 |
| Other payable and accrued expenses | **14,786** | 18,104 |
| | **132,746** | 780,843 |

The bills payables as at 31 December 2018 were secured by (i) restricted bank deposits of the Group amounting to HK$19,694,000 (Note 21), and (ii) guarantees provided by Chairman and a related company beneficially owned by the Chairman.

The bills payables as at 31 December 2017 were secured by (i) restricted bank deposits of the Group amounting to HK$103,360,000 (Note 21), (ii) properties owned by the Chairman and a related company beneficially owned by the Chairman, and (iii) guarantees provided by the Chairman and his spouse, the Company, a subsidiary of the Group and a related company beneficially owned by the Chairman.

## 25 TRADE AND OTHER PAYABLES *(Continued)*

As at 31 December 2018 and up to the date of this report, the loan principal of HK$204,738,000 (included in the Group's borrowings) and the interest payables amounting to HK$12,759,000 (included in above other payable and accrued expenses) were not repaid in accordance with the scheduled payment dates. Details please refer to note 27 to the consolidated financial statements. This constituted event of defaults resulted in cross-default of bills payables amounting to HK$55,923,000 as at 31 December 2018, of which had original contractual repayment dates beyond 31 December 2018. Partly as a result of the above cross-default, the Group's bills payables became repayable on demand.

At 31 December 2018, the aging analysis of the trade payables (including bills payables) based on invoice date is as follows:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| Within 30 days | **6,366** | 136,316 |
| 31 to 60 days | **12,712** | 151,272 |
| 61 to 90 days | **5,767** | 50,249 |
| 91 to 120 days | **28,871** | 134,576 |
| Over 120 days | **56,116** | 338 |
| | **109,832** | 472,751 |

The carrying amounts of the Group's trade and other payables are denominated in the following currencies:

| | **2018** | 2017 |
|---|---|---|
| | **HK$'000** | HK$'000 |
| RMB | **119,629** | 598,302 |
| HK$ | **13,117** | 150,008 |
| US$ | **–** | 32,210 |
| Euro | **–** | 323 |
| | **132,746** | 780,843 |

## 26 CONTRACT LIABILITIES

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Advances from customers | **67,764** | – |

Note:

(i) Upon the adoption of HKFRS 15, these amounts were reclassified from trade and other payables to contract liabilities.

(ii) The contract liabilities relate to the advance consideration received from customers for the purchase of energy trading products.

(iii) Movements in contract liabilities during the year is as follows:

| | **2018 HK$'000** |
|---|---|
| At 1 January | **–** |
| Reclassification from trade and other payables upon adoption of HKFRS 15 (Note 2.1.3 (a)(ii)) | **198,585** |
| Increase in contract liabilities as a result of advance consideration received from customers for the purchase of energy trading products | **55,822** |
| Decrease in contract liabilities as a result of recognising revenue during the year that was included in the contract liabilities at the beginning of the year | **(181,856)** |
| Currency translation differences | **(4,787)** |
| At 31 December | **67,764** |

## 27 BORROWINGS

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| **Current** | | |
| Bank borrowings (a) | | |
| — secured | **258,322** | 136,677 |
| — unsecured | **39,821** | 74,171 |
| | **298,143** | 210,848 |
| Notes payable (b) | **98,389** | 98,165 |
| Total borrowings | **396,532** | 309,013 |

**(a) Bank borrowings**

The secured bank borrowings as at 31 December 2018 were secured by (i) investment properties of the Group (Note 15), (ii) investment properties of the Chairman and a related company beneficially owned by the Chairman and, (iii) guarantees provided by the Chairman and his spouse and two related companies beneficially owned by the Chairman.

The secured bank borrowings as at 31 December 2017 were secured by (i) investment properties of the Group (Note 15), (ii) properties owned by a related company beneficially owned by the Chairman and, (iii) guarantees provided by the Chairman and two related companies beneficially owned by the Chairman.

The unsecured bank borrowings as at 31 December 2018 were supported by guarantees provided by the Chairman.

The unsecured bank borrowings as at 31 December 2017 were supported by guarantees provided by the Chairman and two related companies beneficially owned by the Chairman.

As at 31 December 2018, bank borrowings with principal and interest payables of HK$204,738,000 and HK$3,610,000 were default and not repaid in accordance with the scheduled payment dates.

Up to the date of this report, the default interest of HK$458,000 was repaid and the default bank borrowings with principal of HK$204,738,000 are still outstanding.

The outstanding bank borrowings of the Group carry interest at effective interest rate ranging from 5.069% to 7.347% (2017: 4.785% to 5.003%) per annum.

## 27 BORROWINGS *(Continued)*

### (a) Bank borrowings *(Continued)*

As at 31 December 2018 and 31 December 2017, all of the Group's bank borrowings were repayable within one year, and are denominated in the following currencies:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| RMB | **271,293** | 210,848 |
| HK$ | **26,850** | – |
| | **298,143** | 210,848 |

The Group has the following undrawn bank borrowing facilities:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Fixed rate: | | |
| — Expiring within one year | **–** | 299,075 |

### (b) Notes payable

On 26 April 2017, the Company and Zhongtai Financial Investment Limited ("**Zhongtai**") entered into a subscription agreement, pursuant to which, the Company issued notes with an aggregate principal amount of HK$100,000,000 with interest rate of 6% per annum and due on 28 April 2018 ("the Notes").

The Notes were further renewed by amendment deeds signed on 27 April 2018 and 9 November 2018 with extended maturity date on 28 April 2019.

The Notes were supported by the Chairman providing a personal guarantee and the pledged his 1,821,053,112 (2017: 1,821,053,112 (restated after share subdivision)) ordinary shares of the Company (representing 58.85% of the issued share capital of the Company as at 31 December 2018) in favour of Zhongtai.

The Notes bear interest from 28 April 2017 at the rate of 6% per annum, payable quarterly in arrear up to 28 April 2019. In addition to the interest payments, the arrangement fee of 5%, 2.5% and 2.5% of the principal amount have to be paid on 27 April 2017, 28 April 2018 and 28 October 2018.

The Company failed to pay the total arrangement fee of HK$5,000,000 on 28 April 2018 and 28 October 2018. In addition to the default in payments of arrangement fee, the Company failed to pay the interest payments and the overdue interest payments of approximately HK$4,149,000 as at 31 December 2018.

## 27 BORROWINGS *(Continued)*

**(b) Notes payable** *(Continued)*

Upon occurrence of an event of default, the Notes become immediately due and payable in accordance with the conditions of the Notes, and Zhongtai is entitled to request early redemption of the principal and interest of the Notes. In addition to the event of the interest default, the Company also breached other covenants of the Notes.

The amortized cost of the notes payable was HK$98,389,000 (2017: HK$98,165,000) as at 31 December 2018.

## 28 DEFERRED INCOME TAX

The analysis of deferred income tax assets and liabilities is as follows:

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Deferred income tax assets: | | |
| — To be recovered after more than 12 months | – | 213 |
| — To be recovered within 12 months | – | 71 |
| | – | 284 |
| Deferred income tax liabilities: | | |
| — To be recovered after more than 12 months | **(190)** | (5,505) |
| — To be recovered within 12 months | – | (3,178) |
| | **(190)** | (8,683) |
| Deferred income tax liabilities — net | **(190)** | (8,399) |

## 28 DEFERRED INCOME TAX *(Continued)*

The movement in deferred income tax assets and liabilities during the year, without taking into consideration the offsetting of balances within the same tax jurisdiction, is as follows:

| | Provisions for inventory write-down HK$'000 | Provisions for long-term service HK$'000 | Tax losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Deferred income tax assets** | | | | |
| At 1 January 2017 | 81 | 199 | – | 280 |
| (Charge)/Credit to profit or loss (Note 11) | (15) | – | 3,676 | 3,661 |
| Currency translation differences | 5 | 14 | – | 19 |
| At 31 December 2017 | **71** | **213** | **3,676** | **3,960** |
| (Charge)/Credit to profit or loss (Note 11) | **18** | **(77)** | **(3,676)** | **(3,735)** |
| Disposal of subsidiaries (Note 35(a)(4)) | **(92)** | **(140)** | **–** | **(232)** |
| Currency translation differences | **3** | **4** | **–** | **7** |
| At 31 December 2018 | **–** | **–** | **–** | **–** |

| | Changes in fair value of investment property HK$'000 | Withholding tax HK$'000 | Acceleration depreciation difference HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Deferred income tax liabilities** | | | | |
| At 1 January 2017 | – | (4,113) | – | (4,113) |
| Charge to profit or loss (Note 11) | (3,071) | (575) | (4,493) | (8,139) |
| Currency translation differences | (107) | – | – | (107) |
| At 31 December 2017 | **(3,178)** | **(4,688)** | **(4,493)** | **(12,359)** |
| Credit to profit or loss (Note 11) | **3,140** | **3,446** | **4,493** | **11,079** |
| Disposal of subsidiaries (Note 35(a)(4)) | **–** | **1,074** | **–** | **1,074** |
| Currency translation differences | **38** | **358** | **–** | **396** |
| At 31 December 2018 | **–** | **190** | **–** | **190** |

## 28 DEFERRED INCOME TAX *(Continued)*

Deferred income tax assets are recognised for tax losses carried forward to the extent that the realization of the related tax benefit through future taxable profits is probable. As at 31 December 2018, the Group had unutilised tax loss carried forward to offset future taxable profits of HK$54,107,000 (2017: HK$29,556,000), which was not recognised as deferred income tax asset, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction and entity.

## 29 DIVIDENDS

| | **2018<br>HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Ordinary shares | | |
| Interim dividend for the year ended 31 December 2018 of HK$Nil (2017: 0.005) per fully paid share | **–** | 7,736 |

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

## 30 CASH FLOW INFORMATION

### (a) Cash used in operations

| | **2018<br>HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| (Loss)/profit for the year | **(351,811)** | 46,853 |
| Adjustments for: | | |
| — Income tax (credit)/expenses | **(2,508)** | 18,454 |
| — Depreciation of property, plant and equipment (Note 6) | **2,486** | 4,098 |
| — Fair value loss/(gain) on investment properties (Note 9) | **22,130** | (12,286) |
| — (Gain)/loss on disposal of property, plant and equipment (Note 9) | **(1,609)** | 49 |
| — Loss on disposal of intangible assets (Note 9) | **598** | – |
| — Written-off of other payable (Note 9) | **(316)** | – |
| — Inventory write-down/(reversal of inventory write-down) (Note 6) | **354** | (100) |
| — Finance expenses (Note 10) | **26,532** | 17,918 |
| — Gain on disposal of subsidiaries (Note 35(a)(3)) | **(1,117)** | – |
| — Impairment of trade receivables | **22,804** | – |
| — Impairment of prepayments | **285,952** | – |
| — Impairment loss on property, plant and equipment (Note 14) | **116** | – |
| Operating cash flow before movement in working capital | **3,611** | 74,986 |

## 30 CASH FLOW INFORMATION *(Continued)*

### (a) Cash used in operations *(Continued)*

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Operating cash flows before movements in working capital | **3,611** | 74,986 |
| — Decrease/(increase) in inventories | **14,216** | (31,845) |
| — Decrease/(increase) in restricted cash | **82,195** | (58,643) |
| — Decrease/(increase) in prepayments to supplier | **182,115** | (341,006) |
| — Decrease/(increase) in trade and other receivables | **3,522** | (119,806) |
| — Decrease in contract liabilities | **(126,034)** | – |
| — (Decrease)/increase in trade and other payables | **(247,727)** | 471,467 |
| Cash used in operations | **(88,102)** | (4,847) |

In the statement of cash flows, proceeds from disposal of property, plant and equipment comprise:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Net book amount (Note 14) | **44,159** | 51 |
| Gain/(loss) on disposal of property, plant and equipment (Note 9) | **1,609** | (49) |
| Proceeds from disposal of property, plant and equipment | **45,768** | 2 |

In the statement of cash flows, proceeds from disposal of intangible assets comprise:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Net book amount (Note 16) | **978** | – |
| Loss on disposal of intangible assets (Note 9) | **(598)** | – |
| Proceeds from disposal of intangible assets (Note 16) | **380** | – |

## 30 CASH FLOW INFORMATION *(Continued)*

### (b) Net debt reconciliation

This section sets out an analysis of net debt and the movements in net debt for each of the years presented.

| | Interest payable (included in trade and other payables) | Amounts due to related parties (included in trade and other payables) | Bank borrowings | Notes payable | Total |
|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2018 | **295** | **74,875** | **210,848** | **98,165** | **384,183** |
| Proceeds | **–** | **–** | **311,459** | **–** | **311,459** |
| Repayment | **(188)** | **(67,725)** | **(211,965)** | **(13,531)** | **(293,409)** |
| Net cash flows | **(188)** | **(67,725)** | **99,494** | **(13,531)** | **18,050** |
| Interest expenses amortisation | **12,777** | **–** | **–** | **13,755** | **26,532** |
| Currency translation differences | **(125)** | **(99)** | **(12,199)** | **–** | **(12,423)** |
| As at 31 December 2018 | **12,759** | **7,051** | **298,143** | **98,389** | **416,342** |

| | Amounts due to related parties (included in trade and other payables) | Bank borrowings | Notes payable | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 1 January 2017 | 104,048 | 200,112 | – | 304,160 |
| Cash flows | (31,599) | (3,180) | 94,653 | 59,874 |
| Interest expenses amortisation | – | – | 3,512 | 3,512 |
| Currency translation differences | 2,426 | 13,916 | – | 16,342 |
| As at 31 December 2017 | 74,875 | 210,848 | 98,165 | 383,888 |

## 31 COMMITMENTS

### (a) Capital commitments

Significant capital expenditure contracted for at the end of the year but not yet recognised as liabilities is as follows:

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Intangible assets<br>— System software update | – | 368 |
| | – | 368 |

### (b) Operating lease commitments — as lessee

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

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Within 1 year | 146 | 10,988 |
| Later than 1 year and no later than 5 years | – | 41,945 |
| Later than 5 years | – | 29,938 |
| | 146 | 82,871 |

### (c) Marketing expenses

| | 2018<br>HK$'000 | 2017<br>HK$'000 |
|---|---|---|
| Contractual obligation for future marketing expenses | | |
| Within 1 year | 1,400 | 2,400 |
| Later than 1 year and no later than 5 years | – | 1,400 |
| | 1,400 | 3,800 |

## 31 COMMITMENTS *(Continued)*

### (d) Inventory management service expenses

| | **2018 HK$'000** | 2017 HK$'000 |
|---|---|---|
| Contractual obligation for future inventory management service expenses | | |
| Within 1 year | **600** | – |
| Later than 1 year and no later than 5 years | **–** | – |
| | **600** | – |

## 32 SIGNIFICANT RELATED PARTY TRANSACTIONS

The controlling shareholder of the Company is Mr. Lin Caihuo who owns beneficially 1,821,053,112 shares (2017: 1,821,053,112 (restated after share subdivision)), representing 58.85% shareholding of the Company.

Related parties are parties that have the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions has the ability, directly or indirectly, control the other party or exercise significant influence over the other party in making financial and operation decisions. Parties are also considered to be related if they are subject to common control.

Save as disclosed elsewhere in the consolidated financial statements, the Group had the following significant related party transactions during the year ended 31 December 2018:

### (a) Related parties

| **Name of related parties** | **Relationship** |
|---|---|
| Tai Sing Industrial Company Limited (泰升實業有限公司) ("**Tai Sing**") | Beneficially owned by a director of certain speaker subsidiaries of the Company. |
| Fujian Yuhua Petrochemical Company Limited (福建裕華石油化工有限公司) ("**Fujian Yuhua**") | Beneficially owned by Mr. Lin Caihuo, the Chairman. |

## 32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

### (b) Related party transactions

The significant transactions carried out with related parties during the year were as follows:

| | Transactions | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|---|
| Tai Sing (i) | — Sales of goods | **4,017** | 7,393 |
| | — Purchase of materials | **9,902** | 108 |
| | — Technical service expense | **2,400** | 1,848 |
| | — Operating lease payment | **1,728** | 1,440 |
| Fujian Yuhua (ii) | — Lease oil storage tanks and ancillary facilities related expenses | **–** | 3,950 |

(i) Sales of goods to and purchase of materials from Tai Sing were conducted in the normal course of business at prices and terms not less than those charged to and contracted with other third party customers. The service expense and operation lease payment were conducted on mutually agreed terms based on estimated market price.

(ii) Oil storage tanks and ancillary facilities related expenses paid was based on estimated market price.

### (c) Related party balances

The balances with related parties as at the year end were as follows:

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Trade receivables (Note 20) | | |
| — Tai Sing | **187** | 133 |

| | 2018 HK$'000 | 2017 HK$'000 |
|---|---|---|
| Amounts due to related parties (Note 25) | | |
| — The Chairman | **7,051** | 70,925 |
| — Fujian Yuhua | **–** | 3,950 |
| | **7,051** | 74,875 |
| Trade payable (Note 25) | | |
| — Tai Sing | **284** | 6 |

## 32 SIGNIFICANT RELATED PARTY TRANSACTIONS *(Continued)*

**(c) Related party balances** *(Continued)*

The amount due to the Chairman of HK$7,051,000 (2017: HK$70,925,000) represented advances from Mr. Lin Caihuo, the Chairman, to support the working capital requirements of the Group and the purchases of properties, plant and equipment of the Group. The amounts with related parties are all unsecured and interest free.

**(d) Compensation of key management personnel**

The remuneration of directors and other members of key management during the year was as follows:

| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
|---|---|---|
| Salaries and other short-term benefits | **1,996** | 1,934 |

The remuneration of directors and key management is recommended by the remuneration committee for approval by the board of directors having regard to the performance of individuals and market trends.

## 33 SUMMARY FINANCIAL INFORMATION OF THE COMPANY

**(a) Statement of financial position of the Company**

| | **As at 31 December** | |
|---|---|---|
| | **2018**<br>**HK$'000** | 2017<br>HK$'000 |
| **Assets** | | |
| **Non-current assets** | | |
| Investment in subsidiaries | **1,230** | 125,760 |
| Amounts due from subsidiaries — non-current | **248,608** | 433,586 |
| | **249,838** | 559,346 |
| **Current assets** | | |
| Other receivables | **841** | – |
| Cash and cash equivalents | **182** | 720 |
| | **1,023** | 720 |
| **Total assets** | **250,861** | 560,066 |

## 33 SUMMARY FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

### (a) Statement of financial position of the Company *(Continued)*

| | As at 31 December | |
|---|---|---|
| | **2018** | 2017 |
| | **HK$'000** | HK$'000 |
| **Equity** | | |
| Share capital | **3,868** | 3,868 |
| Other reserves | **292,198** | 292,198 |
| (Accumulated losses)/retained earnings | **(362,922)** | 32,108 |
| **Total equity** | **(66,856)** | 328,174 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Amount due to subsidiaries | **179,175** | 130,453 |
| Other payables | **13,303** | 3,274 |
| Borrowings | **125,239** | 98,165 |
| **Total liabilities** | **317,717** | 231,892 |
| **Total equity and liabilities** | **250,861** | 560,066 |

The statement of financial position of the Company was approved by the Board of Directors on 29 March 2019 and was signed on its behalf.

**Lin Caihuo**
*Director*

**Wang Enguang**
*Director*

## 33 SUMMARY FINANCIAL INFORMATION OF THE COMPANY *(Continued)*

### (b) Reserve movement of the Company

| | Share premium HK$'000 | Special reserve HK$'000 | Share option reserve HK$'000 | Retained earnings/ (accumulated losses) HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| At 1 January 2017 | 151,656 | 107,647 | 32,895 | 26,619 | 318,817 |
| Profit for the year | – | – | – | 13,225 | 13,225 |
| Dividends paid (Note 29) | – | – | – | (7,736) | (7,736) |
| At 31 December 2017 | 151,656 | 107,647 | 32,895 | 32,108 | 324,306 |
| At 1 January 2018 | **151,656** | **107,647** | **32,895** | **32,108** | **324,306** |
| Loss for the year | **–** | **–** | **–** | **(395,030)** | **(395,030)** |
| At 31 December 2018 | **151,656** | **107,647** | **32,895** | **(362,922)** | **(70,724)** |

### (c) Contingencies of the Company

The Company provided guarantee for the letter of credit payables (included in trade payables) of a subsidiary of the Company in the amount of HK$Nil (2017: HK$29,627,000) with a guarantee ceiling of HK$Nil (2017: HK$601,000,000), and guarantee for the bills payables of another subsidiary of the Company in the amount of RMB8,000,000 (2017: RMB50,000,000) (equivalent to HK$9,130,000 (2017: HK$59,815,000)) with a guarantee ceiling of RMB50,000,000 (2017: RMB50,000,000) (Note 25).

## 34 BENEFITS AND INTERESTS OF DIRECTORS

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

The remuneration of every director and the chief executive is set out below:

| Name | Fees | Salary | Discretionary bonuses | Employer's contribution to a retirement benefit scheme | Other emoluments | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **For the year ended 31 December 2018:** | | | | | | |
| *Executive directors* | | | | | | |
| Lin Caihuo | **–** | **1,200** | **–** | **–** | **–** | **1,200** |
| Wang Enguang | **–** | **200** | **–** | **–** | **–** | **200** |
| *Non-executive director* | | | | | | |
| Wang Shoulei (Note (i)) | **240** | **–** | **–** | **–** | **–** | **240** |
| *Independent non-executive directors* | | | | | | |
| Lum Pak Sum | **120** | **–** | **–** | **–** | **–** | **120** |
| Liu Yang | **120** | **–** | **–** | **–** | **–** | **120** |
| Wong Yan Ki, Angel (Note (ii)) | **116** | **–** | **–** | **–** | **–** | **116** |
| Total | **596** | **1,400** | **–** | **–** | **–** | **1,996** |
| **For the year ended 31 December 2017:** | | | | | | |
| *Executive directors* | | | | | | |
| Lin Caihuo | – | 1,200 | – | – | – | 1,200 |
| Wang Enguang | – | 200 | – | – | – | 200 |
| *Non-executive director* | | | | | | |
| Wang Shoulei (Note (i)) | 174 | – | – | – | – | 174 |
| *Independent non-executive directors* | | | | | | |
| Lum Pak Sum | 120 | – | – | – | – | 120 |
| Liu Yang | 120 | – | – | – | – | 120 |
| Wong Yan Ki, Angel | 120 | – | – | – | – | 120 |
| Total | 534 | 1,400 | – | – | – | 1,934 |

## 34 BENEFITS AND INTERESTS OF DIRECTORS *(Continued)*

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

Notes:

(i) Appointed on 10 April 2017.

(ii) Resigned on 17 December 2018.

### (b) Directors' retirement benefits and termination benefits

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

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

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

### (d) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporate by and connected entities with such directors

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

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

Save as disclosed in the consolidated financial statements, no significant transactions, arrangements and contracts in relation to the Group's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2017: HK$Nil).

## 35 DISCONTINUED OPERATION

### (a)(1) Description

On 25 May 2018, the Group entered into a disposal agreement with an independent third party in relation to the disposal of the entire issued share capital in a wholly owned subsidiary of the Company, Crown Million Industries (International) Limited (冠萬實業(國際)有限公司) (the "**Target Company**" together with its subsidiary, collectively the "**Target Group**") ("**the Disposal**"). The Target Group is principally engaged in manufacturing and trading of home theatre and automotive speaker systems.

The Target Group was sold on 4 June 2018 (the "**Completion Date**") for cash consideration of HK$32,655,000 pursuant to the amendment to the share purchase agreement dated on 5 December 2018. The results of the Target Group are presented in the consolidated statement of profit or loss as a discontinued operation.

## 35 DISCONTINUED OPERATION *(Continued)*

### (a)(2) Financial performance and cash flow information

Financial information relating to the Target Group for the period to the date of disposal of 4 June 2018 is set out below.

| | **2018.01.01– 2018.06.04 HK$'000** | 2017.01.01– 2017.12.31 HK$'000 |
|---|---|---|
| **Revenue** | **229,868** | 500,645 |
| Cost of sales | **(209,187)** | (443,491) |
| **Gross profit** | **20,681** | 57,154 |
| Distribution expenses | **(1,455)** | (2,847) |
| Administrative expenses | **(13,409)** | (35,237) |
| Other income | **18** | 1,132 |
| Other losses — net | **(3,485)** | (4,766) |
| **Operating profit** | **2,350** | 15,436 |
| Finance income | **12** | 32 |
| **Profit before income tax** | **2,362** | 15,468 |
| Income tax expense | **(1,164)** | (1,973) |
| **Profit after income tax** | **1,198** | 13,495 |

## 35 DISCONTINUED OPERATION *(Continued)*

**(a)(2) Financial performance and cash flow information** *(Continued)*

The profit from the discontinued operations is analysed as follows:

| | **2018.01.01–2018.06.04 HK$'000** | 2017.01.01–2017.12.31 HK$'000 |
|---|---|---|
| Profit of discontinued operations for the period | **1,198** | 13,495 |
| Gain on disposal of the Target Group | **1,117** | – |
| | **2,315** | 13,495 |
| Currency translation differences from discontinued operations | **801** | 4,176 |
| Reclassification of translation reserve upon disposal of subsidiaries | **(1,117)** | – |
| **Other comprehensive (loss)/income from discontinued operations** | **(316)** | 4,176 |
| Net cash (outflow)/inflow from operating activities | **(7,778)** | 52,369 |
| Net cash outflow from investing activities | **(340)** | (735) |
| Net cash outflow from financing activities | **–** | (60,000) |
| **Net decrease in cash from discontinued operation** | **(8,118)** | (8,366) |

## 35 DISCONTINUED OPERATION *(Continued)*

### (a)(3) Gain on disposal of the Target Group

| | 2018 HK$'000 |
|---|---|
| Net assets disposed of | 32,655 |
| Reclassification of translation reserve upon disposal of subsidiaries | (1,117) |
| | 31,538 |
| Gain on disposal | 1,117 |
| Total consideration | 32,655 |
| Satisfied by: | |
| Cash received or receivable as consideration | 32,655 |
| Net cash inflow arising on disposal: | |
| Cash received or receivable as consideration | 32,655 |
| Consideration receivable | (3,265) |
| Total cash consideration received | 29,390 |
| Less: bank balance and cash disposed of | (4,857) |
| | 24,533 |

The consideration was determined by reference of the net asset value of the Target Group as at the Completion Date. As at 31 December 2018, the consideration has been 90% paid according to the disposal agreement.

## 35 DISCONTINUED OPERATION *(Continued)*

**(a)(4) Analysis of assets and liabilities over which control was lost:**

| | 2018<br>HK$'000 |
|---|---|
| **Assets** | |
| **Non-current assets** | |
| Property, plant and equipment | 2,315 |
| Rental deposits | 624 |
| Deferred income tax assets | 232 |
| | 3,171 |
| **Current assets** | |
| Inventories | 44,206 |
| Trade and other receivables and prepayments | 124,212 |
| Cash and cash equivalents | 4,857 |
| | 173,275 |
| **Total assets** | 176,446 |
| **Liabilities** | |
| **Non-current liabilities** | |
| Deferred income tax liabilities | 1,074 |
| **Current liabilities** | |
| Trade and other payables | 142,419 |
| Current income tax liabilities | 298 |
| | 142,717 |
| **Total liabilities** | 143,791 |
| **Net assets disposal of** | 32,655 |

## 35 DISCONTINUED OPERATION *(Continued)*

**(b)(1) Description**

On 17 August 2018, the Group entered into a disposal agreement with an independent third party in relation to the disposal of a vessel owned by a wholly owned subsidiary of the Company.

The vessel was sold on 17 August 2018 (the "**Completion Date**") for cash consideration of approximately HK$45,702,000. Gain of HK$3,317,000 was resulted from the disposal. Subsequent to the disposal of vessel, the segment of oil tanker transportation was discontinued. The results of the segment of oil tanker transportation are presented in the consolidated statement of profit or loss as a discontinued operation.

**(b)(2) Financial performance and cash flow information**

Financial information relating to the oil tanker transportation segment for the year is set out below.

| | **2018** **HK$'000** | 2017 HK$'000 |
|---|---|---|
| **Revenue** | **29,471** | 29,613 |
| Cost of services | **(17,712)** | (24,154) |
| **Gross profit** | **11,759** | 5,459 |
| Administrative expenses | **(536)** | (930) |
| Other gains — net | **3,506** | 492 |
| **Profit before income tax** | **14,729** | 5,021 |
| Income tax expense | **(2,258)** | (817) |
| **Profit after tax** | **12,471** | 4,204 |
| Net cash inflow from operating activities | **11,894** | 7,916 |
| Net cash inflow/(outflow) from investing activities | **45,703** | (41,261) |
| Net cash (outflow)/inflow from financing activities | **(58,299)** | 33,938 |
| **Net (decrease)/increase in cash from discontinued operation** | **(702)** | 593 |

## 36 COMPARATIVE FIGURES

Certain comparative figures have been restated to conform with current year's presentation.

# Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000<br>(Restated) | **2018**<br>**HK$'000** |
| RESULTS | | | | | |
| Continuing operations: | | | | | |
| Revenue | 551,117 | 4,735,523 | 5,915,428 | 9,500,029 | **1,848,844** |
| Profit/(Loss) for the year from continuing operations | 5,275 | (10,172) | 24,370 | 29,154 | **(366,597)** |
| Profit for the year from discontinued operations | 2,297 | – | – | 17,699 | **14,786** |
| Profit/(Loss) for the year | 7,572 | (10,172) | 24,370 | 46,853 | **(351,811)** |
| Attributable to: | | | | | |
| Owners of the Company | 7,572 | (10,172) | 24,370 | 46,853 | **(351,811)** |
| Non-controlling interests | – | – | – | – | **–** |
| | 7,572 | (10,172) | 24,370 | 46,853 | **(351,811)** |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | 2014<br>HK$'000 | 2015<br>HK$'000 | 2016<br>HK$'000 | 2017<br>HK$'000 | **2018**<br>**HK$'000** |
| ASSETS AND LIABILITIES | | | | | |
| Total assets | 466,558 | 733,243 | 922,016 | 1,530,130 | **664,009** |
| Total liabilities | (199,121) | (379,487) | (566,768) | (1,102,543) | **(601,308)** |
| Shareholders' funds | 267,437 | 353,756 | 355,248 | 427,587 | **62,701** |
| Equity attributable to owners of the Company | 267,437 | 353,756 | 355,248 | 427,587 | **62,701** |
| Non-controlling interests | – | – | – | – | **–** |
| | 267,437 | 353,756 | 355,248 | 427,587 | **62,701** |