金山能源集團有限公司
KING STONE ENERGY GROUP LIMITED

(Incorporated in Hong Kong with limited liability)
(Stock Code: 00663)

2018
ANNUAL REPORT

CONTENTS

CORPORATE INFORMATION

BOARD OF DIRECTORS

Executive Directors

Ms. Gloria Chang Wong *(Chairman)*
Mr. Zong Hao *(Chief Executive Officer)*
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson
Ms. He Qing

Independent Non-Executive Directors

Mr. Chiu Sui Keung
Mr. Lu Binghui
Mr. Lee Ping
Mr. Liu Shengming

AUDIT COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Lu Binghui
Mr. Lee Ping

REMUNERATION COMMITTEE

Mr. Chiu Sui Keung *(Chairman)*
Mr. Xu Zhuliang
Mr. Lu Binghui

NOMINATION COMMITTEE

Ms. Gloria Chang Wong *(Chairman)*
Mr. Chiu Sui Keung
Mr. Lu Binghui

AUTHORISED REPRESENTATIVES

Mr. Zong Hao
Mr. Lee Tao Wai

COMPANY SECRETARY

Mr. Lee Tao Wai

AUDITOR

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1 Tim Mei Avenue
Central, Hong Kong

LEGAL ADVISER

Michael Li & Co.
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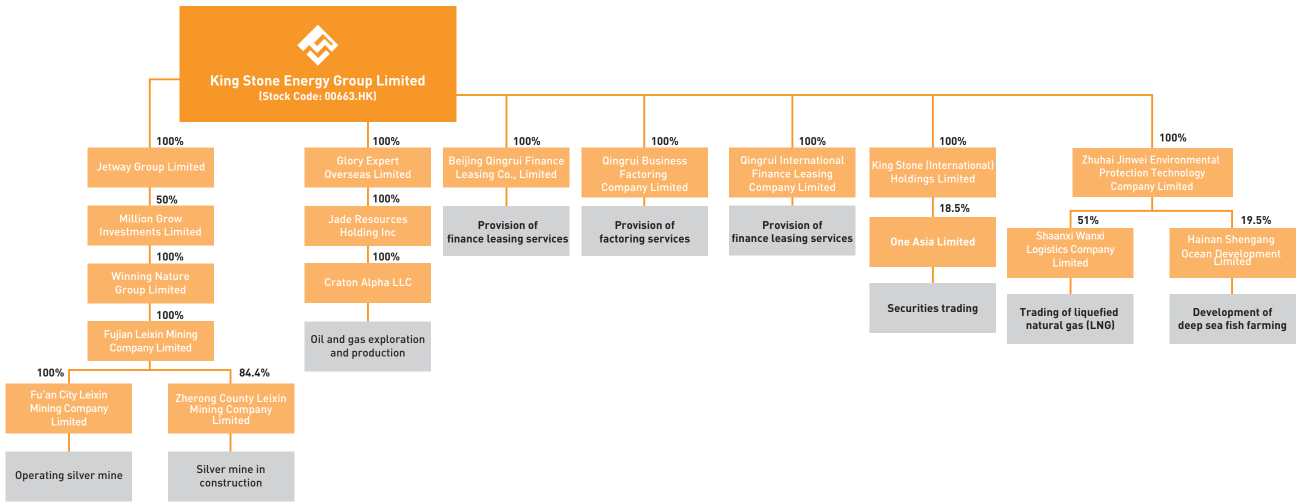
COMPANY WEBSITE

http://www.663hk.com

STOCK CODE

00663

GROUP STRUCTURE



CAPITAL EXPENDITURE

The capital expenditure for development and mining production activities was approximately HK$2.5 million (2017: HK$0.7 million) during the year.

FUJIAN LEIXIN SILVER MINES

Fu'an Silver Mine (the West Mine)

Name	Fu'an City Leixin Mining Company Limited
Location	Fu'an City, Fujian
Licensed area	2.1 km^2
Mining rights validity	2010-2020
Designed capacity	198,000 tons per annum

Zherong Silver Mine (the East Mine)

Name	Zherong County Leixin Mining Company Limited
Location	Zherong County, Fujian
Licensed area	4.97 km^2
Exploration rights validity	2017-2018*
Designed capacity	660,000 tons per annum

*: The Group is in the process of renewing the exploration permit.

	The West Mine	The East Mine
As at 31 May 2018		
Probable ore reserves (million tons)	0.69	6.07
Ore grade (g/t Ag)	210.4	122.1
Actual output in 2018 (million tons)	–	–
	–	–
As at 31 December 2018		
Probable ore reserves (million tons)	0.69	6.07

Note: The above information are extracted from technical report issued by SRK Consulting China Limited dated 31 May 2018 after deduction of actual output up to 31 December 2018 based on Leixin's record.

CRATON OIL AND GAS FIELDS

	Natural gas (million cubic feet)	Natural gas liquid (NGL) (thousand bbl)	Oil (thousand bbl)
As at 1 January 2015			
Proved reserves	16,986.89	449.67	191.67
Probable reserves	19,621.22	519.40	225.02
Possible reserves	31,342.41	829.67	359.46
	67,950.52	1,789.74	776.15
Adjustments based on acreage held			
Proved reserves	(3,876.92)	(102.63)	(44.46)
Probable reserves	(11,724.89)	(310.37)	(134.46)
Possible reserves	(23,336.83)	(617.76)	(267.64)
	(38,938.64)	(1,030.76)	(446.56)
Proved reserves	13,109.97	347.04	147.21
Probable reserves	7,896.33	209.03	90.56
Possible reserves	8,005.58	211.92	91.82
	29,011.88	767.99	329.59
Actual output in 2015	(688.36)	(23.62)	(8.52)
Actual output in 2016	(389.71)	(14.08)	(4.49)
Actual output in 2017	(246.31)	(10.41)	(2.72)
Actual output in 2018	(186.17)	(7.93)	(2.00)
	(1,510.55)	(56.04)	(17.73)
As at 31 December 2018			
Proved reserves	11,599.42	291.00	129.48
Probable reserves	7,896.33	209.03	90.56
Possible reserves	8,005.58	211.92	91.82
	27,501.33	711.95	311.86

Note: The above information are extracted from the reserve report issued by Cawley Gillespie & Associates Inc. on 3 March 2015 after adjustments based on acreage held and deduction of actual output up to 31 December 2018 based on Craton's record.

BUSINESS REVIEW

The Group is principally engaged in exploring and drilling natural gas and oil in the United States of America (the "USA"), mining of silver minerals, provision of asset financing and factoring services and trading of liquefied natural gas ("LNG") in the People's Republic of China (the "PRC") during the year.

(1) Oil and gas exploration and production

The Group currently operates an upstream oil and gas exploration and production ("Oil and gas E&P") project in East Texas, the USA. The Group completed drilling of the first well and the second well (the "Operating Wells") which have started production since July 2014 and March 2015 respectively. The oil and gas produced from the Operating Wells are sold to oil and gas storage and transportation companies in East Texas, the USA. Each well normally has a production life of over 10 years.

The Group had entered into over 400 lease agreements (the "Lease Agreements") with mineral owners. Pursuant to the Lease Agreements, the Group is entitled to explore and produce oil and gas in a total area of about 1,845 acres at East Texas, the USA (the "Mining Area"). Royalty fees are payable by the Group to the owners of the Mining Area based on total production from the Mining Area. The Lease Agreements contain provisions that the lease shall remain in force for a primary term of typically three years from the date of the Lease Agreement, and as long thereafter as oil and/or gas is being produced in economic quantities (i.e. value of sales exceed costs) or operations are being conducted at the relevant Mining Area. Such Lease Agreements are classified as "held by production".

As announced before, the Operating Wells have been drilled within the Mining Area under the Lease Agreements which covers an area of approximately 1,628.1 acres with lease expiration dates between 2015 and 2019. The remaining Mining Area of approximately 329.6 acres are under Lease Agreements with lease expiration dates after 2018. As the remaining Mining Area of approximately 217 acres is of non-contiguous nature, it would be uneconomical for the Group to drill wells on them without first leasing additional acreage. Accordingly, the Group currently does not expect any production from these Mining Area. It is also the Group's commercial decision not to renew them. With the relatively low price level of oil and gas, it is more economical and in the interests of the Group to let the Lease Agreements expire upon the end of the lease term if there is no immediate concrete production plan in those acreages.

Due to the drop in oil and gas prices in the past years, the Group did not consider it commercially viable to increase the production from the Mining Area by drilling additional wells. Notwithstanding this, the Group is entitled to drill additional wells at the Mining Area subject to the necessary drilling permit for any such new well being obtained. The Group expects that six additional new wells can be drilled for production in the acreage where the Operating Wells are located. The cost to drill an additional well and build related infrastructures is estimated to be around US$4.5 million to US$5.0 million (equivalent to approximately HK$35.1 million to HK$39.0 million) and it takes about three months from the application of drilling permit to the commencement of drilling and production. There was no new well drilled during the year and the Group has been exploring other energy related projects in the USA.

(2) Silver Mining

Currently, the Group conducts its silver mining business through two silver mines in Ningde City, Fujian Province, the PRC, namely the "Western Section" located in Fu'an County of Ningde City (the "West Mine") and the "Eastern Section" located in Zherong County of Ningde City (the "East Mine"). Based on an updated technical report issued by SRK Consulting China Limited ("SRK"), an independent technical consultant, dated 31 May 2018 (the "Technical Report"), the probable ore reserve as at 31 May 2018 of the West Mine was estimated to be approximately 0.69 million tonnes, while the probable ore reserve of the East Mine was estimated to be approximately 6.07 million tonnes, adopting the Australasian Code for Reporting of Exploration Results, Mineral Resources and Ore Reserves released by the Joint Ore Reserves Committee.

The West Mine

The overall production capacity of mining and processing at the West Mine is 100,000 tonnes per annum, or 300 tonnes per day. During the year, the Group has conducted certain preliminary preparations for the resumption of production at the West Mine including but not limited to the maintenance and repairing of equipment and facility of mining system and ore processing plant, as well as associated tailing storage facility. The Group continues to perform mining system checking, training, overall examination, safety production assessment, and trial production at the West Mine.

It was originally scheduled that the ore mining at the West Mine would be resumed in August 2018. However, certain government bodies inspected the mines in Ningde City (including the West Mine) in mid-August 2018 and requested the Group to repair and upgrade several safety production and environmental facilities before production at the West Mine can be resumed. It is expected that, barring any unforeseen circumstances, ore mining at the West Mine will be resumed by the second quarter in 2019. Pursuant to notice "The Office of the Work Safety Commission of the State Council [2019] No. 3" issued on 26 February 2019, the tender of mining team(s) for mining activities at the West Mine is being reviewed. The Group is discussing with the relevant government bodies about the above requirements and will use its best endeavour to resume production at the West Mine as soon as possible and is also exploring other revenue stream generated from this segment.

The East Mine

The East Mine is designed to have a production capacity of 330,000 tonnes per annum (i.e. approximately 1,000 tonnes per day) with an expected life of 19 years. The exploration license for the East Mine held by the Group covers an area of 4.97 square kilometers and was valid from October 2012 to April 2018. The Group has submitted an application to the relevant authorities for renewal of the exploration license in March 2018. As at the date of this report, such renewal application is still being processed. It is expected that such renewal will be approved by the relevant government bodies when environmental requirements in respect of mines production has been reviewed and standardized. Barring any unforeseen circumstances, there is no legal impediment for such renewal process pursuant to the legal opinion advised by the PRC legal adviser.

Meanwhile, the first-stage general exploration work on the mining area at the East Mine has been completed. The Company is in the process of preparing the application for the mining license, such as commissioning a geologist report and preparation of other relevant documents. Under normal circumstances, the time for applying for and obtaining a mining license is approximately 12 to 18 months. The Group intends to carry out infrastructure construction at the East Mine once the mining license is obtained. It is expected that infrastructure construction of the East Mine will begin by the end of 2019. It will take about two years to complete the construction and trial production, and the mining production will begin in 2022.

Update on the possible construction of a reservoir close to the West Mine and the East Mine

As announced before, the government of Ningde City, Fujian Province, the PRC (the "Ningde Government") is implementing a project to construct a reservoir (the "Project") close to the West Mine and the East Mine. If the Project proceeds, it might affect the production activities in the West Mine and the East Mine and/or increase the cost of production, such as the cost of meeting the environmental requirement from the government or altering the mining roads. The Group is however not in the position to estimate the additional cost of production, if any, and the impact of the Project on the production/exploration at the West Mine and the East Mine, as no concrete plan of the Project has been published by the Ningde Government or provided to the Group.

Based on the preliminary information provided by the Ningde Government, the highest elevation of the planned reservoir is 185 metres above sea level. Based on the review performed by SRK in May 2018, it is of the view that there will be certain impact on the mining of orebodies occurred below that elevation. However, given that the Project has not yet been concretely implemented, and the design, approval, and construction time of the reservoir are not finalised, the impact of the Project on the Group is considered to be limited due to the following reasons: (i) the amount of resources at the East Mine and the West Mine below 185 metres above sea level is limited; and (ii) there are no ore below 185 metres above sea level based on the latest feasibility study.

The Group has been in discussions with the relevant bodies at Ningde Government in relation to the impact of the Project on the Group. The Group and the relevant governmental bodies have also discussed the possible compensation to the Group and agreed to engage an independent expert to perform an overall assessment of the impact of the Project on the Group. The Group has also enquired with the governmental bodies about the proposed timetable of the Project, compensation benchmark and relevant laws, regulations and policies. As at the date of this report, there are no material and official updates from the relevant governmental bodies. The Group will continue to follow up with the relevant governmental bodies for the implementation of the Project including determination of the compensation proposal, and announcement(s) will be made by the Company if there is any material update on the Project as and when appropriate.

(3) Asset Financing

The asset financing business of the Group is operated by three wholly-owned subsidiaries in the PRC (the "Asset Financing Subsidiaries"). The business scope of the Asset Financing Subsidiaries as set out in their business licenses includes finance leasing and factoring business in the PRC and the business models of the Group's asset financing business are as follows:

(i) the relevant Asset Financing Subsidiary purchases assets specified by its client (being the lessee) and leases the assets to the client in return for leasing income which is determined based on the purchase price of the relevant assets plus interest. At the expiry of the lease term, the client shall have the right to acquire the assets at a nominal consideration;

(ii) the client sells its own assets to the relevant Asset Financing Subsidiary and leases back such assets from the relevant Asset Financing Subsidiary. Leasing income is earned for this sale and leaseback arrangement based on the purchase price of the relevant assets plus interest; and

(iii) the relevant Asset Financing Subsidiary provides factoring services to client which sells its receivable balances to the relevant Asset Financing Subsidiary. The relevant Asset Financing Subsidiary charges an arrangement fee for the factoring services and interest on the receivable balances during the period from the factoring to the final settlement of the receivable balances by the debtors. In certain cases, the receivables are secured by assets of the debtors.

The Group has been conducting its asset financing business prudently in order to manage its exposures to credit risk. The Group will continue to seek business opportunities with new potential customers with a view to expanding the client base for the finance leasing and business factoring businesses and generating more recurring income for the Group.

During the year, the Asset Financing Subsidiaries entered into certain asset financing and factoring arrangements in accordance with their ordinary course of business with an aggregate principal amount of RMB40 million (equivalent to approximately HK$45.5 million) on 28 May 2018 and 26 June 2018 respectively (please refer to the announcements of the Company dated 28 May 2018 and 26 June 2018 for further details).

(4) Trading of LNG

The Group acquired 51% equity interest of Shaanxi Wanxi Logistics Co., Ltd ("Shaanxi Wanxi") in November 2018 (as detailed in section headed "Significant investments, material acquisitions and disposals" below) and commenced business of trading of LNG in the PRC through Shaanxi Wanxi during the year. Shaanxi Wanxi currently holds a Hazardous Chemical Products Operating Permit and a Road Transport Permit to operate its existing business which can also provide a platform for potential LNG investment and LNG trading business. The LNG was sold to a LNG distributor in Northern China during the year.

FINANCIAL REVIEW

Revenue and cost of sales

The Group recorded total revenue of approximately HK$23.6 million (2017: HK$18.8 million) during the year, representing an increase of 26% compared with last year. The increase in revenue was mainly due to commencement of business of trading of LNG by Shaanxi Wanxi during the year.

For the Oil and gas E&P business, the Group, net of ownership interests, produced approximately 2,000 Bbl (2017: 2,726 Bbl) of oil, and approximately 186 million cubic feet (2017: 246 million cubic feet) of natural gas (which includes approximately 7,931 Bbl (2017: 10,417 Bbl) of natural gas liquids). The net average selling prices of oil, natural gas and natural gas liquids during the year were approximately US$61.62 per Bbl (2017: US$46.52 per Bbl), approximately US$2.06 per thousand cubic feet (2017: US$2.12 per thousand cubic feet) and approximately US$19.16 per Bbl (2017: US$17.54 per Bbl) respectively. All of them in aggregate generated revenue of approximately HK$5.2 million (2017: HK$6.5 million) during the year.

For the silver mining business, the Group sold silver, gold and zinc concentrates from ore processing at the West Mine and generated revenue of approximately HK$2 million (2017: nil).

The Group also recorded revenue of approximately HK$12.8 million (2017: HK$12.3 million) from provision of asset financing business (representing interest income and management fee income) and trading of LNG of approximately HK$3.6 million (2017: nil) during the year.

Cost of sales primarily consists of depreciation and amortisation of property, plant and equipment and mining rights, related labour cost and subcontracting fee for the production, taxes, supplies, utilities and other incidental expenses in relation to production. Cost of sales for oil and gas extraction and production and ore processing was approximately HK$4 million (2017: HK$5.3 million) and approximately HK$3.1 million (2017: nil) during the year. Cost of sales for trading of LNG was approximately HK$3.9 million (2017: nil). There was no cost of sales for provision of asset financing recognised during the year (2017: nil).

For the year ended 31 December 2018, the Oil and gas E&P business recorded gross profit margin of 23% (2017: 19%) and the silver mining business recorded gross loss margin of 54%. The trading of LNG recorded gross loss margin of 8%.

Other income and gain, net

Other income and gain, net was approximately HK$17.4 million during the year (2017: HK$40.2 million). It mainly represented income from waiver of management fee of a subsidiary of the Company of approximately HK$14.5 million during the year (2017: nil). In 2017, it mainly represented exchange gain arising mainly from trade balance between inter-group companies of approximately HK$34.5 million. There was no such gain recognised during the year.

Selling and distribution expenses and administrative expenses

Selling and distribution expenses of HK$0.1 million was recognised during the year (2017: nil). Administrative expenses were approximately HK$59.2 million (2017: HK$60.1 million) during the year, mainly comprising staff cost for administrative functions, legal and professional fees incurred for operation, depreciation and other administrative expenses. There was no material fluctuation noted during the year.

Other expenses, net

For the year ended 31 December 2018, other expenses, net of approximately HK$143.8 million (2017: HK$46.3 million) mainly comprised:

(i) impairments of property, plant and equipment and intangible assets in aggregate of approximately HK$86.2 million (2017: HK$40.9 million) as elaborated in below;

(ii) impairment of financial assets comprised of other receivables and lease and factoring receivables of approximately HK$1.1 million (2017: nil) due to implementation of new accounting standard namely "HKFRS 9 Financial Instruments" effective from 1 January 2018;

(iii) impairment of a loan receivable of approximately HK$35.7 million (2017: nil); and

(iv) impairment of goodwill of approximately HK$2.1 million (2017: nil) in respect of acquisition of Shaanxi Wanxi during the year.

In view of indications of impairment including decrease in forecast silver price and gas price and updated forecast of silver and oil and gas production according to the actual output during the year, the directors of the Company had estimated the recoverable amounts of the mining assets of the silver mining business (the "Silver Mining Assets") of the Group using fair value less cost of disposal ("FV") approach, and the extracting assets (the "Extracting Assets") of the Oil and gas E&P business (the "Oil & Gas Assets") of the Group using value in use ("VIU") approach for impairment testing.

In this connection, the Company had assessed the recoverable amounts of the cash-generating units ("CGUs") and the management had derived the recoverable amounts of the Mining/Extracting Assets from the FV or VIU of the relevant CGUs. In assessing the recoverable amounts of each of the CGUs, the future cash flows of each of the silver mining and Oil and gas E&P businesses which cover the periods to utilise the remaining reserves of the mines and oil and gas fields, are discounted to the related present values using a post-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included but were not limited to selling prices and sales volumes of silver, oil and gas, production cost and other expenses, capital expenditure, production plan and discount rate, respectively, which reflected the current conditions of the market and the Group and estimated trend in the future.

When evaluating the appropriate discount rate for each of the CGUs, the Capital Assets Pricing Model (the "CAPM") had been used. Under CAPM, the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of the CGUs was expected to be affected by other firm specific risk factors that are independent of the general market. The cost of equity was determined by the risk-free rate, market return, and estimated beta of the CGUs and firm specific risk factors. The pre-tax discount rates ranging from 10% to 14% (2017: 11% to 16%) were used in assessing the FV of the CGUs of the Silver Mining Assets and 12% (2017: 12% to 13%) was used in assessing the VIU of Oil & Gas Assets, was arrived at by weighted average of cost of equity and cost of debt after tax of the respective CGUs.

There was no material change in the valuation methodology adopted by the Group during the year.

Based on the FV assessment of the CGUs of the Silver Mining Assets, the directors of the Company are of the opinion that an impairment loss of the Silver Mining Assets totaling HK$81.8 million (2017: HK$34.7 million) was resulted during the year, in which HK$8.2 million (2017: HK$4.7 million) was allocated to property, plant and equipment and HK$73.6 million (2017: HK$30 million) was allocated to intangible assets of the Group's silver mining segment, based on their relative carrying amounts amongst the Silver Mining Assets.

In addition, based on the VIU assessment of the CGUs of the Oil & Gas Assets, the directors of the Company are of the opinion that an impairment loss of the Oil & Gas Assets totalling HK$4.4 million (2017: HK$6.2 million) was resulted during the year, in which HK$4 million (2017: HK$5.8 million) was allocated to property, plant and equipment and HK$0.4 million (2017: HK$0.4 million) was allocated to intangible assets of the Group's oil and gas segment, based on their relative carrying amounts amongst the Oil & Gas Assets.

Further details of the impairment testing are disclosed in note 17 to the financial statements.

Finance costs

Finance costs were approximately HK$54 million (2017: HK$58 million) during the year, which mainly represented interest and other borrowing costs and overdue penalty incurred for other loans obtained for the silver mining business.

Share of losses of associates

In March 2017, the Group acquired 41.67% equity interest of TI Systems Ltd ("TI Systems"), which is principally engaged in development of e-payment system, at a cash consideration of HK$6 million. Such investment in TI Systems has been accounted for as investment in an associate in the consolidated statement of financial position of the Group. Share of loss of TI Systems of approximately HK$0.27 million (2017: HK$1.6 million) was recognised during the year.

During the year, the Group also shared the losses of (i) an associate which is principally engaged in fund investment in deep sea fish farming industry in Hainan Province, the PRC of approximately HK$0.01 million (2017: nil); and (ii) an associate which is principally engaged in securities trading in Japan of approximately HK$0.11 million (2017: nil). Details of these two new associates were set out in section headed "Significant investments, material acquisition and disposal".

Income tax

Income tax credit was approximately HK$18.3 million (2017: HK$5.9 million) during the year. It mainly represented write back of deferred tax liabilities arising from impairment of Silver Mining Assets of approximately HK$20.4 million (2017: HK$8.6 million). Income tax was approximately HK$2.1 million (2017: HK$2.7 million) during the year. It mainly represented tax on profits from asset financing business in the PRC. No provision for profit tax in Hong Kong and the USA has been made during the current and prior years.

Loss for the year attributable to shareholders of the Company

Loss for the year attributable to shareholders of the Company was approximately HK$143.3 million (2017: HK$60.2 million). The increase in loss for the year was mainly due to the increase in impairment of property, plant and equipment and intangible assets of the Silver Mining Assets and Oil & Gas Assets and impairment loss of a loan receivable recognised during the year.

FUND RAISING EXERCISES

The Company did not have any equity fund raising activity during the year.

UPDATE ON USE OF PROCEEDS

As stated in the previous announcements of the Company, the Board resolved to re-allocate the net proceeds of approximately HK$299 million from the two placing exercises completed by the Company in 2015 and 2016 from stone paper business to potential mergers and acquisition of mineral resources company and assets. Deposit of RMB85 million (equivalent to approximately HK$101.8 million) was paid as earnest money for the potential acquisition of lead and zinc mines in the PRC and JPY 500 million (equivalent to approximately HK$36.2 million) was paid under a loan agreement in relation to potential acquisition of solar energy project in Japan as detailed in section headed "Significant investments, material acquisitions and disposal" below. Investments in two associates of approximately HK$52.2 million were also paid as detailed in section headed "Significant investments, material acquisitions and disposal" below during the year. Payment of RMB3 million (equivalent to approximately HK$3.4 million) was also made for acquisition of Shaanxi Wanxi during the year. Taking into account of the latest development of the Group and potential investment opportunities, the remaining net proceeds in aggregate of HK$105.5 million will be applied as previously disclosed for (i) other potential mergers and acquisition of approximately HK$50 million if opportunities arise in future; and (ii) general working capital of approximately HK$55.5 million including but not limited to payment of operating expenses of the Group and development of the existing businesses of the Group in 2019. The Group is still identifying new mergers and acquisitions opportunities and therefore the aforesaid net proceeds of HK$50 million were not yet utilised as at the date of this report.

Details of the above were disclosed in the announcements of the Company dated 6 November 2015, 25 January 2016, 29 July 2016, 8 October 2016 and 4 December 2017 and the circulars of the Company dated 7 December 2015 and 3 March 2016.

LIQUIDITY AND FINANCIAL REVIEW

The Group mainly financed its day to day operations by internally generated cash flow during the year. As at 31 December 2018, the current ratio of the Group, measured as total current assets to total current liabilities, was 1.59:1 (2017: 1.85:1). As at 31 December 2018, the cash and cash equivalents of the Group were approximately HK$188.4 million (2017: HK$368.9 million).

As at 31 December 2018, there were other loans of approximately HK$219.9 million (2017: HK$177.3 million) comprising loan principal and commission payable of approximately HK$45.5 million (2017: HK$48 million) and overdue interest and penalty of approximately HK$174.3 million (2017: HK$129.3 million). All other loans were denominated in Renminbi. Other loans with principal of approximately HK$33.6 million (2017: HK$35.4 million) and HK$11.9 million (2017: HK$12.6 million) were interest-free and with fixed interest rate of 15% per annum, respectively. Other loans with principal of approximately HK$33.6 million (2017: HK$35.4 million) and HK$11.9 million (2017: HK$12.6 million) were subject to an overdue penalty of 0.05% – 0.5% per day on loan principal and 1% on the overdue balance, respectively. As at 31 December 2018 and 2017, all other loans were overdue.

There were certain legal proceedings which have been instituted against the Group in respect of other loans (which were included in "Other loans" in the consolidated statement of financial position of the Group as at 31 December 2018) as detailed below:

(i) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB9.5 million (equivalent to approximately HK$10.8 million) issued in August 2017, the Group was held liable to pay a sum of approximately RMB10.4 million (equivalent to approximately HK$11.9 million) to the creditor with costs incurred for this litigation. In January 2018, the court issued the execution order to freeze the assets of the Group of approximately RMB10.5 million (equivalent to approximately HK$12 million). The Group has applied to stay the execution order and is considering for an appeal or retrial. The execution order is not yet implemented and there has been no material update as at the date of this report.

(ii) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB5 million (equivalent to approximately HK$5.7 million) and respective accrued interest issued in November 2017, the Group was held not to be liable to pay the claims made by the creditor. There has been no material update up to the date of this report.

(iii) Pursuant to the judgment of the second instance in respect of a claim for outstanding loan with principal amount of RMB5.5 million (equivalent to approximately HK$6.3 million) and respective accrued interest issued in March 2018, the Group was held liable to pay the claims made by the creditor. There has been no material update as at the date of this report.

Adequate accrued interest and penalties have been provided by the Group as at 31 December 2018. The Directors are of the opinion that the above litigations do not have any material adverse impact on the operation and financial position of the Group.

The Group conducted its continuing operational business transactions mainly in Renminbi, Hong Kong dollars and US dollars. The Group did not arrange any forward currency contracts for hedging purposes.

GEARING RATIO

The gearing ratio of the Group, measured as total debt (which represented trade payables, other payables and accruals and other loans) in a ratio to the total equity attributable to shareholders of the Company, was 0.46 as at 31 December 2018 (2017: 0.29).

SIGNIFICANT INVESTMENTS, MATERIAL ACQUISITIONS AND DISPOSALS

Proposed acquisition of lead and zinc mines in the PRC

On 4 December 2017, the Company entered into a non-legally binding memorandum of understanding (as supplemented on 29 June 2018 and 27 December 2018) in respect of the proposed acquisition of the entire issued share capital of the South Ray Investment Limited which indirectly owns one mining permit and three exploration permits in Inner Mongolia, the PRC. The Group shall pay the earnest money in the sum of RMB70 million to the vendor and up to RMB30 million for meeting the operating expenses and/or capital expenditure of the target group subject to prior approval by the Company, which shall both be fully refundable together with interest calculated at 3% per annum if the said proposed acquisition does not proceed on or before 30 June 2019. Earnest money of RMB85 million (approximately HK$97 million) were paid up to the date of this report. No formal agreement in respect of the proposed acquisition was made as at the date of this report. Details of the above were set out in the announcements of the Company dated 4 December 2017, 29 June 2018 and 27 December 2018.

Proposed acquisition of solar energy business in Japan

On 29 December 2017, the Company entered into a non-legally binding memorandum of understanding with Kumi Umi Energy Co. Ltd. ("KUE") and the shareholders of KUE in relation to the proposed subscription of 98,000 new shares of KUE with cash consideration of JPY980 million (equivalent to approximately HK$70 million) by the Company. KUE is principally engaged in development, operation and management of middle scale solar energy projects in Japan and currently has capacity of over 79MW under development.

On 14 February 2018, the Company has advanced a loan of JPY500 million (equivalent to approximately HK$35.7 million) with interest of 8% per annum for a term of three months to KUE for funding development cost of solar photovoltaic plants and working capital. On 18 May 2018, the loan has been extended for a further term of six months. Details of the above were set out in the announcements of the Company dated 29 December 2017 and 18 May 2018.

No formal agreement in respect of the proposed subscription was made up to the date of this report. The loan was not yet repaid by KUE as at the date of this report and full impairment loss has been made in this regard. The Group is still negotiating the repayment of loan with KUE and considering all necessary action(s) to recover the loan receivable including but not limited to requesting additional collaterals for such loan and taking legal action.

Acquisition of Shaanxi Wanxi

On 10 October 2018, Zhuhai Jinwei Environmental Protection Technology Co., Ltd ("Zhuhai Jinwei"), a wholly owned subsidiary of the Company, entered into a sale and purchase agreement with Huaxin Xinneng Logistics Co., Ltd., an independent third party, in relation to the acquisition of 51% of the equity interests in Shaanxi Wanxi, which is principally engaged in transportation of dangerous goods and trading of LNG, for a cash consideration of RMB3 million (equivalent to approximately HK$3.4 million). The acquisition was completed in November 2018. Details of the above were set out in the announcement of the Company dated 10 October 2018.

Set up of Hainan Shengang Ocean Development Limited ("Hainan Shengang") in Hainan, the PRC

On 28 August 2018, Zhuhai Jinwei, and other three independent third parties entered into a joint venture agreement for establishment of Hainan Shengang for the purpose of fund investment in deep sea fish farming industry in Hainan Province, the PRC. The registered capital of Hainan Shengang is RMB200 million (equivalent to approximately HK$228 million) and Zhuhai Jinwei should contribute RMB39 million (equivalent to approximately HK$44.4 million) in cash representing 19.5% of the entire equity interest in Hainan Shengang. Hainan Shengang was incorporated in August 2018 and capital injection from Zhuhai Jinwei has been made in December 2018. Investment in Hainan Shengang has been classified in "Investments in associates" in the consolidated balance sheet of the Group as at 31 December 2018.

Acquisition of One Asia Securities Limited ("OAS")

On 14 November 2018, King Stone (International) Holdings Limited, a wholly owned subsidiary of the Company, entered into a subscription agreement in relation to the subscription of 55,000 new shares of OAS at a total cash consideration of JPY110 million (equivalent to approximately HK$7.6 million) representing 18.5% equity interest in OAS. OAS is principally engaged in securities trading, mergers and acquisitions advisory and asset management in Japan. The subscription was completed in December 2018. Investment in OAS has been classified in "Investments in associates" in the consolidated balance sheet of the Group as at 31 December 2018.

Save for the above and certain finance lease and factoring agreements as mentioned above, the Group had no significant investments in, nor any material acquisition and disposal during the year.

CAPITAL COMMITMENTS, CHARGE ON GROUP ASSETS AND CONTINGENT LIABILITIES

As at 31 December 2018, the Group had contracted capital commitments not provided for in the consolidated financial statements of RMB1.5 million equivalent to approximately HK$1.7 million (2017: HK$1.8 million) in respect of acquisition of 30% equity interest in a former subsidiary of the Company.

As at 31 December 2018, time deposits of approximately HK$0.4 million (2017: HK$0.4 million) were pledged for conducting silver mining businesses as required by relevant government authorities. Save as disclosed above, the Group had no other pledge of assets as at 31 December 2018.

As at 31 December 2018, the Group did not have any material contingent liabilities (2017: nil).

HUMAN RESOURCES AND SHARE OPTION SCHEME

As at 31 December 2018, the Group had 55 (2017: 51) employees. The total staff costs (including directors' remuneration) for the year were approximately HK$27.9 million (2017: HK$31.8 million). The Group's remuneration policy is primarily based on the individual performance and experience of employees including directors, prevailing industry practice and market rates. In addition to the basic salaries, the Group provides staff benefits including medical insurance and contributions to the provident fund. Discretionary bonuses are also available to the Group's employees depending upon the overall performance of the Group. The Group also provides appropriate training programmes for employees' better personal development and growth. Pursuant to the Company's share option scheme, the Company may offer to any eligible participants including employees of the Group options to subscribe for shares in the Company. No share option was granted nor exercised during the year. There were no outstanding share options as at 31 December 2018.

FUTURE OUTLOOK

The Group remains cautious but positive with the outlook of commodity and oil and gas markets. It is expected that the production from ore mining and processing at the West Mine would be resumed by second quarter of 2019. The Group is also monitoring the commodity market environment closely, in particular the expected market price of natural gas, and formulating an appropriate strategy and timetable to expand the production by drilling additional wells when necessary.

For assets financing business, the Group is negotiating with banks to obtain additional banking facilities and bank loans to enhance the financial capabilities of the Group in expanding the asset financing business, together with plans of expansion of manpower. With additional manpower and financial resources, the Group would be able to undertake more active marketing such as making cold call visits to potential customers and participating in industry events to promote its services. Meanwhile, for the trading of LNG business, the Group is also expanding the customer base and the logistics team for Shaanxi Wanxi in coming years.

Other than the above proposed new investment, the Group is still exploring other investment projects including lead and zinc mines in Inner Mongolia, the PRC, solar energy projects in Japan, certain oil and gas investment projects in North America, establishment of fund management company and other potential business opportunities to diversify the Group's business and broaden its revenue base. Further announcements will be made when any of the above investment opportunities materializes in compliance with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and other applicable laws.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

Ms. Gloria Chang Wong, aged 79, graduated from Nazareth College (currently known as Spalding University) in Kentucky, the United States of America. Ms. Chang is a famous merchant and participated in a variety of industries including hotels, trade, construction, advertising, transportation, etc. She is currently the chairman of Atlas International Group Limited, which engages in freight, logistics, courier, material production and import and export business. Ms. Chang has been enthusiastic about participating in social affairs over the years and held a number of public service positions. She is currently a committee of the National Committee of the Chinese People's Political Consultative Conference (CPPCC), a committee of the Subcommittee of Hong Kong, Macao and Taiwan Compatriots and Overseas Chinese of CPPCC, the executive director of the China Overseas Friendship Association, the deputy secretary of the Friends of Hong Kong Association Ltd., a committee of the Supervision Committee of DAB, the vice president of the Association for the Promotion of Global Chinese Traders Fraternity Limited, the honorary adviser of the Hong Kong Federation of Overseas Chinese Associations and a life member of the Hong Kong Federation of Women. She has over 30 years of experience in corporate management. She was appointed as the executive director of the Company on 18 April 2017 and is the chairman of the Company.

Mr. Zong Hao, aged 49, obtained a degree of the Master of Laws from Buffalo Law School, the State University of New York in 1997. Mr. Zong has been an independent director of Suzhou Electrical Apparatus Science Academy Co., Ltd., a company listed on the Shenzhen Stock Exchange (stock code: 300215) from 2009 to 2015 and is currently an independent non-executive director of Sincere Watch (Hong Kong) Limited, a company listed on the Stock Exchange (stock code: 444) since December 2016. Mr. Zong was the chief representative of Cherry Lane Music Publishing Company Inc. Beijing office from 2003 to 2010. He was also the executive vice president of Quintana China and Taggart China LLC from 2007 to January 2013. He was appointed as the executive director and chief executive officer of the Company on 1 February 2013.

Mr. Xu Zhuliang, aged 49, obtained a diploma from Taiyuan University of Technology in 1991. Mr. Xu holds the Safety Qualification Certificate issued by the State Administration of Work Safety. Since 2009, Mr. Xu has been the Assistant to President and Vice President of Beida Jade Bird Group, and is primarily responsible for the management of the company's coal mine and chemical projects. During the period from 2006 to 2008, Mr. Xu was the manager of Shanxi Tianchengdayang Energy Chemical Industry Co. Ltd., a company specialized in the development, production and processing of energy chemical products. Prior to that, Mr. Xu was the manager of Shanxi Glamour Science & Technology Co. Ltd. During the period from 2002 to 2006, he was responsible for the research and development, investment, construction and operation of the coal mine and chemical projects of that company. He was appointed as the executive director of the Company on 12 March 2013 and is a member of the remuneration committee of the Company.

Mr. Benjamin Clark Danielson, aged 48, obtained a Bachelor of Science degree from the United States Military Academy at West Point and a Master of Business Administration degree from the University of Texas at Austin. Mr. Danielson has significant experience in sourcing, evaluating and executing investments for private equity funds, as well as managing and monitoring the activities of portfolio companies. During the period from 2006 to 2012, Mr. Danielson worked at Quintana Capital Group, a United States-based private equity fund focused in energy-related industries, most recently acting as Chief Investment Offer, China. He was appointed as the executive director and chief investment officer of the Company on 12 March 2013.

Ms. He Qing, aged 50, graduated from China University of International Business and Economics with a Bachelor Degree in Chinese. From May 1993 to October 1994, Ms. He was the chief financial officer of Beijing Zhongzhilu Business Conference Service Company Limited. From October 1994 to October 2009, she was the chief financial officer of Beijing Foreign Enterprise Air Service Co., Ltd.. Since October 2009, Ms. He has been the vice president of Beijing Beida Jade Bird Co., Ltd., responsible for investment management. She has over 20 years of experience in finance and corporate management. She was appointed as the executive director of the Company on 18 April 2017.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Chiu Sui Keung, aged 52, has over 16 years' experience in the strategic management in various listed companies, financial industry and accounting field. He has possessed extensive experience in corporate finance including initial public offerings, takeovers, mergers and acquisitions, fund raising and corporate advisory. Mr. Chiu graduated with a Bachelor's Degree in Commerce from the University of Melbourne, Australia and has obtained a Master's Degree in Applied Finance from Macquarie University in Sydney, Australia. He has also obtained a Diploma in Practices in Chinese Laws and Regulations Affecting Foreign Businesses jointly organized by Southwest University of Political Science and Law, the PRC and the Hong Kong Management Association. He is currently the executive director and chief executive officer of Elife Holdings Limited (stock code: 223) and was the non-executive director of China New Energy Power Group Limited (stock code: 1041) during the period from September 2008 to July 2009, both of the companies are listed on the Stock Exchange. He was appointed as the independent non-executive director of the Company on 18 January 2010. Mr. Chiu is the chairman of the audit committee and the remuneration committee of the Company and a member of the nomination committee of the Company.

Mr. Lu Binghui, aged 43, graduated from Beijing University with a Bachelor Degree in Philosophy and a Master Degree in Economics. He has extensive experience of investment management in investment banks and private equity. From 2010 to 2012, he was the principal of Kohlberg Kravis Roberts & Co, a private equity, where he was mainly responsible for proprietary deal sourcing, transaction execution and post-investment management focusing on energy and natural resources sectors. Prior to that, he worked in Goldman Sachs Gaohua Securities Company Limited and Goldman Sachs China Business as executive director and A-share Sponsorship Representative from 2005 to 2010. From 2000 to 2005, he worked in investment banking department of Bank of China International. He was appointed as the independent non-executive director of the Company on 22 March 2013. Mr. Lu is a member of the audit committee, nomination committee and remuneration committee of the Company.

Mr. Lee Ping, aged 58, holds a Bachelor's Degree in Mathematics and Computer Science from State University of New York at Buffalo, a Master's Degree in Computer Science and a Doctor of Philosophy in Mathematics from Cornell University. He has over 21 years' experience in energy and petroleum industry. Currently, Mr. Lee is the President and General Manager of BG Group China, a world leader in natural gas industry. He has responsibility in managing BG Group's overall portfolio in relation with China, domestic and international. Prior to joining BG Group, Mr. Lee served as President of Schlumberger China, the world largest oilfield services company, responsible for oilfield operations, technology development, engineering and manufacturing, global sourcing, and developing and implementing long term growth strategy. He also spent ten years in Schlumberger-Doll Research and Austin Research as senior and principal research scientist, and is a holder of over twenty scientific publications and two patents. He was appointed as the independent non-executive director of the Company on 8 April 2013 and is a member of the audit committee of the Company.

Mr. Liu Shengming, aged 64, graduated from Sichuan University with a Bachelor Degree in Analytical Chemistry and Sydney University with a Master Degree in Business Administration. He is a senior engineer and has over 21 years of solid knowledge and experience in inspection and certification sector. Currently, Mr. Liu is the president of China Certification & Inspection (Group) Co., Ltd ("CCIC"), an independent third party certification and inspection organisation providing inspection, verification, certification and testing services. Prior to joining CCIC, he worked in China Commodity Inspection Institute for over 10 years. He also worked in China Inspection Company Limited (Hong Kong) and Certification and Accreditation Administration of the People's Republic of China. He was appointed as the independent non-executive director of the Company on 7 August 2013.

SENIOR MANAGEMENT

Mr. Lee Tao Wai, aged 40, is the company secretary of the Company. Mr. Lee is a member of the Hong Kong Institute of Certified Public Accountants and has over 16 years of experience in auditing, accounting and corporate field. Prior to joining the Company, Mr. Lee worked in an international accounting firm and a listed company in Hong Kong as senior executive. Mr. Lee holds a Bachelor Degree in Business Administration in Professional Accountancy from The Chinese University of Hong Kong, a Master Degree in Investment Management from The Hong Kong University of Science and Technology and a Master Degree in International Economic Law from The Chinese University of Hong Kong. He joined the Group in April 2010.

INTRODUCTION

The Company is committed to maintaining a high standard of corporate governance and has taken appropriate steps to adopt and comply with the provisions of its Code on Corporate Governance Practices (the "Code") which adopted practices that meet the requirements set out in Appendix 14 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") during the year, except for provision A.4.1 of the Code as explained on page 23 of this report.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code") as set out in Appendix 10 to the Listing Rules as its own code for dealing in securities of the Company by the directors of the Company (the "Directors"). Having made specific enquiry of all Directors, the Directors confirm that they have complied with the required standard as set out in the Model Code regarding director's securities transactions during the year.

BOARD OF DIRECTORS

The Board of Directors (the "Board") is principally accountable to the consolidated financial statements and is responsible for the leadership and control of the Group including overseeing the Group's businesses, strategic directions, financial performance, setting objectives and business development plans, and monitoring the performance of the management.

The Board, with balance of skills and experience, meets regularly throughout the year to formulate overall strategy, monitor business development as well as the financial performance of the Group and has formal procedures on matters for consideration and decision. The Board has delegated certain authorities to the management for the day-to-day management of the Group's operation.

The Directors have no financial, business, family or other material/relevant relationship among themselves.

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

The Board is also responsible for performing the corporate governance functions such as developing and reviewing the Company's policies, practices on corporate governance; reviewing and monitoring the training and continuous professional development of directors and senior management and the Company's policies and practices on compliance with legal and regulatory requirements; etc. It is also the practice of the Group to engage and consult financial advisors and legal advisors in conducting its various transactions and in its daily operations in order to ensure compliance with legal and regulatory requirements. The Group has also adopted the policy that all business transactions conducted by the Group must strictly comply with relevant laws and regulations. The Board reviews and monitors whether such policy and practices have been followed by the management and employees of the Group from time to time.

DIRECTORS' ATTENDANCE RECORD AT MEETINGS

The attendance of each Director at the Board meetings, certain committee meetings and general meeting during the year is as follows:

	Attended/Eligible to attend				
	Board meeting	Remuneration Committee meeting	Nomination Committee meeting	Audit Committee meeting	General meeting*
Executive Directors:					
Ms. Gloria Chang Wong (Chairman)	10/12	N/A	1/1	N/A	1/1
Mr. Zong Hao	9/12	N/A	N/A	N/A	0/1
Mr. Xu Zhuliang	12/12	1/1	N/A	N/A	1/1
Mr. Benjamin Clark Danielson	11/12	N/A	N/A	N/A	1/1
Ms. He Qing	9/12	N/A	N/A	N/A	1/1
Independent non-executive Directors:					
Mr. Chiu Sui Keung	12/12	1/1	1/1	2/2	1/1
Mr. Lu Binghui	4/12	0/1	0/1	2/2	0/1
Mr. Lee Ping	5/12	N/A	N/A	2/2	0/1
Mr. Liu Shengming	7/12	N/A	N/A	N/A	0/1

* Being the annual general meeting held on 1 June 2018

REMUNERATION OF SENIOR MANAGEMENT

The remuneration of the members of the senior management by band for the year ended 31 December 2018 is set out below:

Remuneration bands	Number of persons
Up to HK$1,000,000	1
HK$1,000,001 and above	–

ROLES AND RESPONSIBILITIES OF CHAIRMAN AND CHIEF EXECUTIVE OFFICER

Under provision A.2.1 of the Code, the roles of chairman and chief executive officer should be separate and should not be performed by the same individual.

Currently, Ms. Gloria Chang Wong is the chairman while Mr. Zong Hao is the chief executive officer.

TERM OF NON-EXECUTIVE DIRECTORS

Under provision A.4.1 of the Code, non-executive Directors should be appointed for a specific term, and subject to re-election in accordance with the articles of association of the Company (the "Articles of Association"). None of the existing independent non-executive Directors is appointed for specific terms, however, all of them are subject to retirement by rotation in accordance with the Articles of Association.

According to the Articles of Association, one–third of the Directors shall retire from office by rotation at the annual general meeting of the Company and every Director shall be subject to retirement by rotation at least once every three years. The Board considers that sufficient measures were taken to ensure the corporate governance practices of the Company are not less than those in the Code.

AUDIT COMMITTEE

The Company has established an audit committee ("Audit Committee") with written terms of reference which are in line with the code provisions set out in the Code. The Audit Committee meets at least twice a year for, among other matters, reviewing the reporting of annual and interim results and other information to the shareholders, the effectiveness and objectivity of the audit process, the risk management and internal control systems of the Company and the Company's policy and practices on corporate governance. Additional meetings may be held by the Audit Committee from time to time to discuss special projects or other issues which the Audit Committee considers necessary. The external auditors of the Company may request a meeting if they consider that one is necessary. The Audit Committee also provides an important link between the Board and the Company's auditors in matters coming within the scope of its terms of reference and keeps under review the independence and objectivity of the auditors. The terms of reference of the Audit Committee are disclosed on the websites of the Company and the Stock Exchange. As at the date of this report, the Audit Committee consisted of Mr. Chiu Sui Keung as chairman and Mr. Lu Binghui and Mr. Lee Ping as members. All of them are independent non-executive Directors.

The Audit Committee is also responsible for performing the functions set out in the provision D.3.1 of the Code. The Audit Committee reviewed the Company's corporate governance policies and practices, training and continuous professional development of Directors and senior management, the Company's policies and practices on compliance with legal and regulatory requirements, the code of conduct and compliance manual (if any) applicable to employees and Directors, the compliance of the Listing Rules, and the Company's compliance with the Code and disclosure in this Corporate Governance Report.

During the year, the Audit Committee held two meetings and reviewed with the management and the Company's auditors the accounting principles and practices adopted by the Group, discussed auditing, internal control, risk management and financial reporting matters including the annual results for the year ended 31 December 2017 and interim results for the six months ended 30 June 2018 and reviewed the Company's compliance with the Code.

REMUNERATION COMMITTEE

The remuneration committee ("Remuneration Committee") of the Group was established in September 2005 with written terms of reference in line with the Code. As at the date of this report, the Remuneration Committee comprised two independent non-executive Directors, Mr. Chiu Sui Keung (Chairman) and Mr. Lu Binghui, and one executive Director, Mr. Xu Zhuliang.The responsibilities of the Remuneration Committee include, among other matters, considering and recommending to the Board the Group's remuneration policy and structure and reviewing and determining the remuneration packages of the individual executive Directors and senior management. The Directors were remunerated with reference to their respective duties and responsibility with the Company, the Company's performance and current market situation. The terms of reference of the Remuneration Committee are disclosed on the websites of the Company and the Stock Exchange. Details of remunerations of the Directors for the year are disclosed in note 9 to the financial statements.

The Remuneration Committee held one meeting to review the existing remuneration policy and structure of the Company during the year.

NOMINATION COMMITTEE

The nomination committee ("Nomination Committee") was established in March 2012 with written terms of reference to (i) review and recommend the structure, size, composition and skills mix of the Board at least annually; (ii) identify and nominate candidates to fill casual vacancies of Directors for the Board's approval; (iii) assess the independence of independent non-executive Directors; (iv) regularly review the time required from a Director to perform his responsibilities; (v) make recommendations to the Board on relevant matters relating to the appointment or re-appointment of Directors and succession planning for Directors in particular the chairman of the Board and the chief executive. As at the date of this report, the Nomination Committee comprised one executive Director, Ms. Gloria Chang Wong (Chairman), and two independent non-executive Directors, Mr. Chiu Sui Keung and Mr. Lu Binghui. According to the board diversity policy, board diversity has been considered from a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service etc. All Board appointments will be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates will be based on a range of diversity perspectives, including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service etc. The responsibilities and authority for selection and appointment of Directors is delegated to the Nomination Committee but the ultimate responsibility for selection and appointment of Directors of the Company rests with the entire Board. The final decision will be based on merit and contribution that the selected candidates will bring to the Board. The terms of reference of the Nomination Committee are disclosed on the websites of the Company and the Stock Exchange. The Nomination Committee will also consider recommendations for candidates made by Shareholders of the Company. Regular reviews will be conducted by the Nomination Committee on the structure, size and composition of the Board and where appropriate, the Nomination Committee will make recommendations on changes to the Board to complement the Company's corporate strategy and business needs.

The Nomination Committee held one meeting to review the board composition during the year.

ACCOUNTABILITY AND AUDIT

Directors' Responsibilities for the Financial Statements

The Directors acknowledge that they are responsible for the preparation of the financial statements for each financial period which give a true and fair view of the state of affairs of the Group and the Company and of the results and cash flows of the Group for that period. In preparing the financial statements for the year ended 31 December 2018, the Directors have selected suitable accounting policies and applied them consistently, made judgments and estimates that are prudent, fair and reasonable and prepared the financial statements on a going concern basis. The Directors are also responsible for keeping proper accounting records with reasonable accuracy for safeguarding the assets of the Group and for taking reasonable steps for the prevention and detection of fraud and other irregularities.

There are no material uncertainties relating to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern for the year ended 31 December 2018.

The Board has not taken any different view from that of the Audit Committee regarding the selection, appointment, resignation or dismissal of external auditor.

Auditor's Responsibilities and Remuneration

An analysis of remuneration for the year in respect of services provided by the auditor of the Company, Ernst & Young, is as follows:

	HK$'000
Audit services	2,200
Non-audit services – agreed-upon procedures on interim report	520
	2,720

The statement of the auditor of the Company regarding its reporting responsibilities is set out in the Independent Auditor's Report on pages 38 to 44.

RISK MANAGEMENT AND INTERNAL CONTROL

The Board is responsible for the risk management and internal control systems of the Company and its subsidiaries and reviewing their effectiveness. The Board oversees the overall risk management of the Group and endeavors to identify, control impact of the identified risks and facilitate implementation of coordinated mitigating measures.

During the year, the Company has adopted and reviewed the effectiveness of the Group's internal control and risk management procedures which include the policies, procedures, monitoring and communication activities and standard of behaviour established for safeguarding the interests of the shareholders of the Company. The risk management and internal control systems of the Company aim to help achieving the Group's business objectives, safeguarding assets and maintaining proper accounting records for provision of reliable financial information. However, the design of the systems are to provide reasonable, but not absolute, assurance against material misstatement in the financial statements or loss of assets and to manage, rather than eliminate, the risks of failure when business objectives are being sought.

The processes used to identify, evaluate and manage significant risks by the Group are summarized as follows:

Risk Identification

- Identifies risks that may potentially affect the Group's business and operations.

Risk Assessment

- Assesses the risks identified by using the assessment criteria developed by the management; and

- Considers the impact and consequence on the business and the likelihood of their occurrence.

Risk Response

- Prioritises the risks by comparing the results of the risk assessment; and

- Determines the risk management strategies and internal control processes to prevent, avoid or mitigate the risks.

Risk Monitoring and Reporting

- Performs ongoing and periodic monitoring of the risk and ensures that appropriate internal control processes are in place;

- Revises the risk management strategies and internal control processes in case of any significant change of situation; and

- Reports the results of risk monitoring to the management and the Board regularly.

The Company does not have an internal audit function and is currently of the view that there is no immediate need to set up an internal audit function within the Group in light of the size, nature and complexity of the Group's business. It was decided that the Board would be directly responsible for internal control of the Group and for reviewing its effectiveness during the year.

The Company has engaged APAC Compliance Consultancy and Internal Control Services Limited as its risk management and internal control review adviser ("the Adviser") to conduct the annual review of the risk management and internal control systems for the year ended 31 December 2018. Such review is conducted annually and cycles reviewed are under rotation basis. The scope of review was previously determined and approved by the Board. The Adviser has reported findings and areas for improvement to the Audit Committee and management of the Company. The Board and Audit Committee are of the view that there are no material internal control defeats noted. All recommendations from the Adviser will be properly followed up by the Group to ensure that they are implemented within a reasonable period of time.

The Company has a policy to assess the likely impact of any unexpected and significant event that may impact the price of the Shares or their trading volume and to decide whether the relevant information is considered as inside information that needs to be disclosed as soon as reasonably practicable pursuant to Rules 13.09 and 13.10 of the Listing Rules and the Inside Information Provisions under Part XIVA of the SFO.

Based on its assessment which covers all material controls including financial, operational and compliance controls and risk management functions, the Board believes that for the year ended 31 December 2018, the Company's internal control and risk management systems are effective and adequate. The Board is satisfied that there are adequate resources of staff with appropriate qualifications and experience in its accounting and financial reporting team and that sufficient training and budget have been provided.

DIRECTORS' TRAINING

Each newly appointed Director has received comprehensive, formal and tailored induction on the first occasion of his appointment, so as to ensure that he has appropriate understanding of the business and operations of the Group and that he is fully aware of his responsibilities and obligations under the Listing Rules and relevant regulatory requirements. There are also arrangements in place for providing continuing briefing and professional development to Directors at the Company's expenses whenever necessary.

During the year, the Directors including Ms. Gloria Chang Wong, Mr. Zong Hao, Mr. Xu Zhuliang, Mr. Benjamin Clark Danielson, Ms. He Qing, Mr. Chiu Sui Keung, Mr. Lu Binghui, Mr. Lee Ping and Mr. Liu Shengming, were provided with regular updates on the Group's business and operations and have complied with the code provision A.6.5 of the Code on continuous professional development by participating in appropriate trainings and seminars. An in house briefing was organised for Directors during the year to update the Directors on the Listing Rules.

COMPANY SECRETARY

During the year ended 31 December 2018, Mr. Lee Tao Wai, the Company Secretary, has taken no less than 15 hours of relevant professional training. Biographical details of Mr. Lee are set out in the section headed "Biographical details of Directors and Senior Management" in this annual report.

SHAREHOLDERS' RIGHTS

The Board endeavours to maintain an on-going dialogue with shareholders. The Company encourages the shareholders to attend the general meetings and the Chairmen of the Board and the board committees should attend the annual general meeting to answer questions.

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar, Tricor Secretaries Limited. For other enquiries, shareholders may send written enquiries to the Company, for the attention of company secretary, by email to king.stone@663hk.com, fax to (852) 2530 5663, mail to 6/F, Bank of China Building, 2A Des Voeux Road Central, Hong Kong or by submitting enquiry form at www.663hk.com.

The shareholders representing at least 5% of the total voting rights at general meeting may requisition to convene an extraordinary general meeting. The requisitionists must submit their requisition in writing, in which it must state the objects of the meeting, and be duly signed by the requisitionists, mailed and deposited at 6/F, Bank of China Building, 2A Des Voeux Road Central, Hong Kong (attention of company secretary); and may consist of several documents in like form, each signed by one or more requisitionists. The requisition will be verified with the Company's share registrar and upon its confirmation that the requisition is proper and in order, the company secretary will arrange the Board to convene an extraordinary general meeting by serving sufficient notice in accordance with the statutory requirements to all registered shareholders.

If within 21 days from the date of the deposit of the requisition the Directors do not convene a meeting for a day not more than 28 days after the date on which the notice convening the meeting is given, the requisitionists, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene a general meeting, but any meeting so convened shall not be held after the expiration of 3 months from the said date. A meeting convened under this section by the requisitionists shall be convened in the same manner, as nearly as possible, as that in which meetings are to be convened by Directors in accordance to the Articles of Association of the Company and the Listing Rules. Any reasonable expenses incurred by the requisitionists by reason of the failure of the Directors duly to convene a meeting shall be reimbursed to the requisitionists by the Company.

The following shareholders namely: (a) any members representing not less than 2.5% of the total voting rights of the Company; or (b) not less than 50 members entitling to vote at annual general meeting are entitled to submit a requisition in writing requesting the Company: (a) to give to members of the Company entitled to receive notice of the next annual general meeting, notice of any resolution which may properly be moved and is intended to be moved at that meeting; and/or (b) to circulate to members entitled to have notice of any general meeting sent to them with respect to the matter referred to in any proposed resolution or the business to be dealt with at that meeting. The requisition must be deposited at the registered office of the Company at 6/F, Bank of China Building, 2A Des Voeux Road Central, Hong Kong for the attention of the Company Secretary not less than 6 weeks before an annual general meeting in the case of a requisition requiring notice of a resolution or if later, the time at which notice is given of that meeting.

The procedures for proposing a person for election as a Director are made available at the Company's website (www.663hk.com).

DIVIDEND POLICY

Dividends may be declared from time to time by the Company to its shareholders. The Company does not have any pre-determined dividend pay-out ratio. The declaration and payment of dividends shall be determined at the sole discretion of the Board after taking into account, among others, the general financial condition of the Group, the capital and debt level of the Group, the future cash requirements and availability for business operations, business strategies and future development needs, the general market conditions and any other factors that the Board deems appropriate.

The payment of dividends by the Company is also subject to any restrictions under the Hong Kong Companies Ordinance and any other applicable laws, rule and regulations and the articles of association of the Company.

INVESTOR RELATIONS

The Company believes in regular and timely communication with shareholders as part of its efforts to help shareholders understand its business better and the way the Company operates. To promote effective communication with the public, the Company maintains a website (www.663hk.com) on which comprehensive information about the Company's major businesses, press releases, notices, financial information, announcements, annual and interim reports and shareholders circulars are being made available.

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

The directors (the "Directors") of King Stone Energy Group Limited (the "Company") present their report and the audited financial statements of the Company and its subsidiaries for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the subsidiaries are set out in note 1 to the consolidated financial statements. Except for commencement of trading of liquefied natural gas ("LNG") during the year, there were no significant changes in the nature of the Group's principal activities during the year.

BUSINESS REVIEW

During the year of 2018, in response to the continuous sub-par price and demand of our products, the Group strategically deferred and reduced its mining and exploration activities in the People's Republic of China (the "PRC") and the United States of America ("USA"). On the other hand, the Group maintained its businesses of provision of asset financing and business factoring in the PRC and commenced trading of LNG in the PRC so as to enhance its returns on capital. Details of business review, financial performance and future development of the Group's business are set out in the "Management Discussion and Analysis" from pages 6 to 17.

Principal Risks and Uncertainties

There are various risks and uncertainties including business risks, operational risks and financial risks that may have different levels of impact on the Group's financial performance, operations, business as well as future prospects.

For risks and uncertainties relating to the business and operation, the business and results of operations are susceptible to volatility in commodity prices including silver and oil and gas prices and economic cyclicality. In addition, as some of the existing mining projects are located in the PRC, the Group's business, financial condition, results of operations and prospects are greatly affected by political, economic and legal developments and changes to government policies in the PRC. If any stricter regulations regarding the Group's operation or the mining industry are enacted in the future, business and operation of the Group may also be significantly impacted and there are uncertainties to renew the mining and exploration permits or obtain relevant approvals from the government. There are also uncertainties to acquire new mining projects.

Details of the financial risks are set out in note 40 to the consolidated financial statements.

Environmental Policies and Performance

The Group is committed to the long term sustainability of the environment and communities in which it operates.

The Group's operations are subject to a variety of the PRC and USA environmental laws and regulations, as well as local environmental regulations promulgated by local authorities on environmental protection. The government has taken an increasingly stringent stance on the adoption and enforcement of rigorous environmental laws and regulations, which could have a material adverse effect on financial condition and results of operations and could incur additional costs.

The Group was in compliance with all relevant laws and regulations regarding environmental protection in all material respects and was not subject to any environmental claims, lawsuits, penalties or administrative sanctions during the year. The Group is also committed to allocate operating and financial resources to ensure environment protection compliance as required by applicable laws and regulations.

Compliance with the Relevant Laws and Regulations

The Group recognises the importance of compliance with regulatory requirements and the risk of non-compliance with the applicable rules and regulations. The Group's operations are mainly carried out in the PRC, USA and Hong Kong while the shares of the Company are listed on The Hong Kong Stock Exchange Limited (the "Stock Exchange"). Hence, the Group shall comply with relevant laws and regulations in the PRC, USA and Hong Kong and the respective places of incorporation of the Company and its subsidiaries. In addition, the Company is required to comply with the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and other relevant regulations.

The Group has complied in material respects with the relevant laws and regulations that have a significant impact on the business and operation of the Group during the year. There was no material breach of or non-compliance with the applicable laws and regulations by the Group for the year ended 31 December 2018.

Relationship with Employees, Customers and Suppliers and other Stakeholders

The Group understands the success of the Group's business depends on the support from its key stakeholders, including employees, customers, suppliers, banks, regulators and shareholders. During the year, save for certain legal proceedings in respect of other loans during the year as disclosed in section headed "Liquidity and Financial Review" under "Management Discussion and Analysis", there were no material and significant dispute between the Group and its key stakeholders that have a significant impact on the Group.

The Group will continue to ensure effective communication and maintain good relationship with each of its key stakeholders.

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2018 and the Group's financial position at that date are set out in the financial statements on pages 45 to 125.

The directors do not recommend the payment of any dividend for the year ended 31 December 2018. No arrangement under which a shareholder has waived or agreed to waive any dividends was made by the Company.

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the audited financial statements, is set out on page 126. This summary does not form part of the audited financial statements.

SHARE CAPITAL

There was no movement in the Company's share capital during the year ended 31 December 2018.

Details of the Company's share capital are set out in note 29 to the consolidated financial statements.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2018, the Company had no retained profits, calculated in accordance with the provisions of Part 6 of the Hong Kong Companies Ordinance, available for distribution. However, the Company's share capital included an amount of HK$1,724,472,000, which was previously included in the Company's share premium account and transferred to share capital upon the new Hong Kong Companies Ordinance becoming effective in 2014, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, sales to the Group's five largest customers accounted for 85.43% of the total sales for the year and sales to the largest customer included therein amounted to 30.06% of the total sales. Purchases from the Group's five largest suppliers accounted for 100% of the total purchases for the year. The largest supplier accounted for 51.76% of the total purchases for the year.

None of the Directors or any of their respective close associates (within the meaning of the Listing Rules) or any shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's share capital) had any beneficial interest in the Group's five largest customers and suppliers.

DIRECTORS

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

Executive Directors:

Ms. Gloria Chang Wong (Chairman)
Mr. Zong Hao
Mr. Xu Zhuliang
Mr. Benjamin Clark Danielson
Ms. He Qing

Independent non-executive Directors:

Mr. Chiu Sui Keung
Mr. Liu Shengming
Mr. Lee Ping
Mr. Lu Binghui

In accordance with the Company's articles of association, (i) Directors appointed during the year shall hold office until the forthcoming annual general meeting and eligible for re-election and (ii) at each annual general meeting, one-third of the Directors shall retire from office by rotation. Mr. Zong Hao, Mr. Lee Ping and Mr. Lu Binghui will retire and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from each of the independent non-executive Directors holding office during the year, and as at the date of this report, Messrs. Chiu Sui Keung, Liu Shengming, Lee Ping and Lu Binghui, are still considered to be independent of the Company.

A full list of the names of the directors of the Group's subsidiaries can be found in the Company's website at www.663hk.com.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Group are set out on pages 18 to 20 of the annual report.

DIRECTORS' SERVICE CONTRACTS

No Directors 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.

DIRECTORS' REMUNERATION

The remuneration of the Directors are determined by the remuneration committee of the Company with reference to the Directors' duties, responsibilities and performance and the results of the Group. Further details of the Company's remuneration committee are set out in the corporate governance report on pages 21 to 29 of the annual report.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

No Director or his associate has engaged in any business which competes or is likely to compete directly or indirectly with that of the Group during the year.

PERMITTED INDEMNITY PROVISION

Pursuant to the Company's articles of association, every Director or other officer of the Company shall be entitled to be indemnified out of the assets of the Company against all losses or liabilities which he may sustain or incur in or about the execution of the duties of his office or otherwise in relation thereto. The Company has maintained appropriate Directors' liability insurance coverage for the Directors during the year.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

As at 31 December 2018, none of the Directors and the chief executive of the Company and their respective associates had or was deemed to have any interests in the long or short positions in the shares or underlying shares of the Company or its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance ("SFO") which (i) were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests in the long or short positions which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers adopted by the Company.

EQUITY LINKED AGREEMENT

Details of the equity-linked agreement entered into during the year or subsisting at the end of the year are also set out below:

Share Option Scheme

The Company has adopted a share option scheme (the "Scheme") which was effective from 30 May 2012 and remains valid for a period of 10 years from 30 May 2012. The Scheme is operated for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Further details of the Scheme are disclosed in the circular of the Company dated 26 April 2012 and note 30 to the financial statements. No share options were granted to any persons during the years ended 31 December 2017 and 2018. There were no outstanding share options as at 31 December 2017 and 2018.

Save as disclosed above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any of the Directors or their respective spouses or minor children, or were any such rights exercised by them; or was the Company, its holding company or any of its subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

CONTRACT OF SIGNIFICANCE

No transaction, arrangement or contract of significance in relation to the Group's business in which the Company, its holding company or any of its subsidiaries and fellow subsidiaries was a party and in which a Director of the Company or an entity connected with a Director of the Company had a material interest, whether directly or indirectly, subsisted during or at the end of the year.

MANAGEMENT CONTRACTS

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

PERSON WHO HAVE AN INTEREST IN SHARES AND UNDERLYING SHARES DISCLOSEABLE UNDER DIVISIONS 2 AND 3 OF PART XV OF THE SFO

So far as was known to the Directors and the chief executive of the Company, as at 31 December 2018, the following persons (not being Directors or chief executive of the Company of which interests were disclosed above) had, or were deemed to have, interests or short positions in the shares or underlying shares of the Company which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO:

Name	Capacity	Total interests in shares/underlying shares	Approximate percentage of the Company's share capital
Belton Light Limited (note 1)	Beneficial owner	3,575,318,000 (L)	51.00%
Jade Bird Energy Fund II, L.P (note 1)	Interest in controlled corporation	3,575,318,000 (L)	51.00%
Goldsino Investments Limited (note 2)	Beneficial owner	1,081,500,000 (L)	15.43%
Mr. Zhao Xu (note 2)	Interest in controlled corporation	1,081,500,000 (L)	15.43%

Remarks: (L) : Long position

Notes:

1. Belton Light Limited is wholly-owned by Jade Bird Energy Fund II, L.P.

2. Goldsino Investments Limited is wholly-owned by Mr. Zhao Xu.

Save as disclosed above, as at 31 December 2018, the Directors and the chief executive of the Company were not aware of any other person who had, or was deemed to have, interests and/or short positions in the shares or underlying shares of the Company or any associated corporations (within the meaning of Part XV of the SFO) which would fall to be disclosed to the Company and the Stock Exchange under the provisions of Division 2 and 3 of Part XV of the SFO.

CLOSURE OF REGISTER OF MEMBERS

In order to establish entitlements to attend and vote at the annual general meeting of the Company to be held on Monday, 3 June 2019, the register of members of the Company will be closed from Wednesday, 29 May 2019 to Monday, 3 June 2019, both days inclusive, during which period no transfer of the shares of the Company can be registered. Shareholders are reminded to ensure that all completed share transfer forms accompanied by the relevant share certificates must be lodged with the Company's share registrar, Tricor Secretaries Limited, at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong not later than 4:30 p.m. on Tuesday, 28 May 2019.

EVENT AFTER THE REPORTING PERIOD

There is no material event of the Group after the reporting period.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors, at least 25% of the Company's total share capital was held by the public as at the date of this report.

AUDITOR

The Company's auditor, Ernst & Young will retire at the forthcoming annual general meeting and a resolution for their reappointment as auditor of the Company will be proposed at the forthcoming annual general meeting.

ON BEHALF OF THE BOARD

Zong Hao
Executive Director

Hong Kong
29 March 2019

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Central, Hong Kong

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To the members of King Stone Energy Group Limited
(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of King Stone Energy Group Limited (the "Company") and its subsidiaries (the "Group") set out on pages 45 to 125, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

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

KEY AUDIT MATTERS

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

EY 安永

KEY AUDIT MATTERS (Continued)

We have fulfilled the responsibilities described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report, including in relation to these matters. Accordingly, our audit included the performance of procedures designed to respond to our assessment of the risks of material misstatement of the consolidated financial statements. The results of our audit procedures, including the procedures performed to address the matters below, provide the basis for our audit opinion on the accompanying consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of silver mining assets and oil and gas assets	
The Group's silver mining segment operates two silver mines in Fujian Province, the People's Republic of China (the "PRC"), and its oil and gas segment explores and drills natural gas and oil in the United States of America. At 31 December 2018, the carrying amount of the associated property, plant and equipment, prepaid land premiums and intangible assets of the silver mining segment (collectively, the "silver mining assets"), net of accumulated depreciation/amortisation and impairment losses, amounted to HK$151 million in aggregate, and that of the associated property, plant and equipment and intangible assets of the oil and gas segment (collectively, the "oil and gas assets"), net of accumulated depreciation/amortisation and impairment losses, amounted to HK$19 million in aggregate. In accordance with Hong Kong Accounting Standard ("HKAS") 36 *Impairment of Assets* issued by the HKICPA, where an indication of impairment on these assets exists, the Group will estimate the recoverable amounts of the relevant assets, which are the higher of the value in use and the fair value less costs of disposal. An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount.	In respect of the estimation of each of the recoverable amounts of the silver mining assets and the oil and gas assets prepared by the independent professional valuer and the Group, respectively, we evaluated the calculation of recoverable amounts estimation and other assumptions (i.e. the forward prices of silver and oil and gas, growth rate,etc.) and involved our valuation specialists to assist us in evaluating the discount rates used. In addition, we discussed with management of the Company and, where applicable, the independent professional valuer engaged by the Group about the parameters and assumptions (as detailed in note 17 to the financial statements) used in the cash flow forecast estimation and obtained corroborative evidence to evaluate their reasonableness. As part of our audit procedures, we considered the competence, capabilities and objectivity of the independent professional valuer engaged by the Group for the valuation of the silver mining assets. Finally, we assessed the adequacy of the related disclosures in the notes to the financial statements.

EY 安永

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of silver mining assets and oil and gas assets (Continued) Since the Group's silver mining segment and oil and gas segment have been loss-making for some time, the Group considered that impairment indications existed for the silver mining assets and the oil and gas assets. In this regard, the recoverable amounts of these assets were estimated by the Group using the discounted cash flow method for the purpose of the impairment assessment. The recoverable amount of the silver mining assets was estimated by an independent professional valuer using the fair value less costs of disposal approach and that of the oil and gas assets was estimated by the Group using the value-in-use approach. The estimations of the recoverable amounts were based on, inter alia, future cash flows of the relevant cash-generating units, which can be subjective in nature and involve various management assumptions regarding the production plan, sales volume and selling price estimation. Further details of the determination of recoverable amounts of the silver mining assets and the oil and gas assets and the key assumptions used are disclosed in note 17 to the consolidated financial statements. Given the complexity and judgemental nature of the impairment test, we considered this a key audit matter. Related disclosures are included in notes 3 and 17 to the consolidated financial statements.	

EY 安永

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter
Recoverability assessment of lease, factoring, trade and other receivables At 31 December 2018, the Group had gross carrying amounts before any impairment losses of lease, factoring and trade receivables of HK$194 million; deposit paid as earnest money for a proposed acquisition of an entity of HK$97 million and loan receivables of HK$68 million. The net carrying amount of these receivables represented 38% of the total assets of the Group as at 31 December 2018 in total. Significant management's judgements and estimates were involved in determining the amount of expected credit losses of these receivables as at the end of the reporting period for impairment assessment. Given the materiality of these receivables and judgemental nature of the recoverability assessment, we considered this a key audit matter. Related disclosures are included in notes 3, 21 and 23 to the consolidated financial statements.	As part of our audit procedures, we (i) obtained an understanding of management judgements involved in assessing the creditability of debtors; (ii) obtained direct external confirmations from the debtors; (iii) reviewed the timeliness of subsequent repayments from the debtors after the end of the reporting period; (iv) assessed the appropriateness of the expected credit loss provisioning methodology used by the Group; (v) assessed the estimates used to determine the expected credit losses by considering the value of collaterals that are available to the Group and the manner in which the receivable is likely to be recovered in the event of default; and/or (vi) reviewed the repayment history of the debtors. Finally, we assessed the adequacy of the related disclosures in the notes to the consolidated financial statements.

EY 安永

OTHER INFORMATION INCLUDED IN THE ANNUAL REPORT

The directors of the Company are responsible for the other information. The other information comprises the information included in the Annual Report, other than the consolidated financial statements and our auditor's report thereon.

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

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

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Our report is made solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

EY 安永

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

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

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

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

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

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

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

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

EY 安永

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

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is CHENG Man.

Ernst & Young
Certified Public Accountants
Hong Kong
29 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
REVENUE	5	**23,553**	18,752
Cost of sales		**(10,928)**	(5,274)
Gross profit		**12,625**	13,478
Other income and gains, net	6	**17,383**	40,247
Selling and distribution expenses		**(100)**	–
Administrative expenses		**(59,155)**	(60,084)
Other expenses, net		**(143,784)**	(46,278)
Finance costs	7	**(54,002)**	(57,982)
Share of losses of associates		**(386)**	(1,561)
LOSS BEFORE TAX	8	**(227,419)**	(112,180)
Income tax	11	**18,259**	5,873
LOSS FOR THE YEAR		**(209,160)**	(106,307)
OTHER COMPREHENSIVE INCOME/(LOSS)			
Other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods:			
Exchange differences:			
On translation of foreign operations		**(10,904)**	20,205
Reclassification adjustment for a loss included in profit or loss on disposal of subsidiaries	34	**25**	–
Fair value loss of available-for-sale investments, net of income tax of nil		**–**	(1,035)
Share of movement in exchange fluctuation reserve of an associate		**94**	(46)
Net other comprehensive income/(loss) that may be reclassified to profit or loss in subsequent periods		**(10,785)**	19,124
Other comprehensive loss that will not be reclassified to profit or loss in subsequent periods – Fair value loss of equity investments at fair value through other comprehensive income, net of income tax of nil		**(560)**	–
OTHER COMPREHENSIVE INCOME/(LOSS) FOR THE YEAR, NET OF INCOME TAX		**(11,345)**	19,124
TOTAL COMPREHENSIVE LOSS FOR THE YEAR		**(220,505)**	(87,183)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

Year ended 31 December 2018

	Note	2018 HK$'000	2017 HK$'000
Loss for the year attributable to:			
Shareholders of the Company		**(143,308)**	(60,230)
Non-controlling interests		**(65,852)**	(46,077)
		(209,160)	(106,307)
Total comprehensive loss for the year attributable to:			
Shareholders of the Company		**(155,106)**	(44,849)
Non-controlling interests		**(65,399)**	(42,334)
		(220,505)	(87,183)
LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	12		
Basic and diluted		**(HK$0.020)**	(HK$0.009)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

31 December 2018

	Notes	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	13	30,706	42,574
Prepaid land premiums	14	779	889
Goodwill	15	–	–
Intangible assets	16	142,223	227,784
Investments in associates	18	51,954	265
Equity investments at fair value through other comprehensive income	19	1,952	–
Available-for-sale investments	19	–	7,181
Lease, factoring and trade receivables	21	16,068	174,617
Prepayments, deposits and other receivables	23	97,863	98,744
Total non-current assets		341,545	552,054
CURRENT ASSETS			
Inventories	20	154	1,203
Lease, factoring and trade receivables	21	177,320	20,826
Loan receivables	22	–	–
Prepayments, deposits and other receivables	23	46,836	7,651
Restricted cash	24	360	379
Cash and cash equivalents	24	188,435	368,949
Total current assets		413,105	399,008
CURRENT LIABILITIES			
Trade payables	25	525	1,361
Other payables and accruals	26	22,479	19,572
Other loans	27	219,864	177,292
Income tax payables		16,824	17,050
Total current liabilities		259,692	215,275
NET CURRENT ASSETS		153,413	183,733
TOTAL ASSETS LESS CURRENT LIABILITIES		494,958	735,787
NON-CURRENT LIABILITIES			
Other payables	26	666	580
Deferred tax liabilities	28	2,306	23,903
Total non-current liabilities		2,972	24,483
Net assets		491,986	711,304

	Notes	2018 HK$'000	2017 HK$'000
EQUITY			
Equity attributable to shareholders of the Company			
Share capital	29	**2,703,301**	2,703,301
Reserves	31	**(2,171,705)**	(2,016,599)
		531,596	686,702
Non-controlling interests		**(39,610)**	24,602
Total equity		**491,986**	711,304

Director
Zong Hao

Director
Xu Zhuliang

Year ended 31 December 2018

	Notes	Attributable to shareholders of the Company						
		Share capital HK$'000	Equity investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2018		2,703,301	–	(15,549)	(2,001,050)	686,702	24,602	711,304
Loss for the year		–	–	–	(143,308)	(143,308)	(65,852)	(209,160)
Other comprehensive income/(loss) for the year:								
Exchange differences on translation of foreign operations		–	–	(11,357)	–	(11,357)	453	(10,904)
Reclassification adjustment for foreign operations disposed of during the year	34	–	–	25	–	25	–	25
Share of movement in exchange fluctuation reserve of an associate		–	–	94	–	94	–	94
Fair value loss of equity investments at fair value through other comprehensive income		–	(560)	–	–	(560)	–	(560)
Total comprehensive loss for the year		–	(560)	(11,238)	(143,308)	(155,106)	(65,399)	(220,505)
Acquisition of a subsidiary	33	–	–	–	–	–	1,187	1,187
Transfer of equity investment revaluation reserve upon disposal of equity investments at fair value through other comprehensive income		–	(1,060)	–	1,060	–	–	–
At 31 December 2018		2,703,301	(1,620)*	(26,787)*	(2,143,298)*	531,596	(39,610)	491,986

Year ended 31 December 2017

	Attributable to shareholders of the Company						
	Share capital HK$'000	Equity investment revaluation reserve HK$'000	Exchange fluctuation reserve HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total equity HK$'000
At 1 January 2017	2,703,301	1,035	(31,965)	(1,940,820)	731,551	66,936	798,487
Loss for the year	–	–	–	(60,230)	(60,230)	(46,077)	(106,307)
Other comprehensive income/ (loss) for the year:							
Exchange differences on translation of foreign operations	–	–	16,462	–	16,462	3,743	20,205
Fair value loss of available-for-sale investments	–	(1,035)	–	–	(1,035)	–	(1,035)
Share of movement in exchange fluctuation reserve of an associate	–	–	(46)	–	(46)	–	(46)
Total comprehensive income/ (loss) for the year	–	(1,035)	16,416	(60,230)	(44,849)	(42,334)	(87,183)
At 31 December 2017	2,703,301	–*	(15,549)*	(2,001,050)*	686,702	24,602	711,304

* These reserve accounts comprise the consolidated negative reserves of HK$2,171,705,000 (2017: HK$2,016,599,000) in the consolidated statement of financial position as at 31 December 2018.

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss before tax		(227,419)	(112,180)
Adjustments for:			
Bank interest income	6	(163)	(322)
Interest income of a loan receivable	6	(700)	(1,441)
Gain on disposal of items of property, plant and equipment	6	(233)	(210)
Gain on disposal of intangible assets	6	–	(1,229)
Finance costs	7	54,002	57,982
Loss on disposal of subsidiaries	8	452	–
Depreciation	8	3,300	3,994
Amortisation of prepaid land premiums	8	65	63
Amortisation of intangible assets	8	143	146
Impairment of items of property, plant and equipment	8	12,228	10,510
Impairment of intangible assets	8	73,954	30,384
Impairment of investment in an associate	8	–	4,128
Impairment of available-for-sale investments	8	–	1,249
Impairment of lease receivables	8	263	–
Impairment of a deposit	8	861	–
Impairment of amount due from an associate	8	808	–
Impairment of goodwill	8	2,136	–
Share of losses of associates		386	1,561
		(79,917)	(5,365)
Decrease in inventories		1,049	–
Decrease/(increase) in lease, factoring and trade receivables		(9,236)	13,864
Decrease/(increase) in prepayments, deposits and other receivables		(32,512)	149,094
Decrease in trade payables		(836)	(2,019)
Increase in other payables and accruals		7,149	2,561
Cash generated from/(used in) operations		(114,303)	158,135
Income tax paid		(1,420)	(2,471)
Net cash flows from/(used in) operating activities		(115,723)	155,664

	Notes	2018 HK$'000	2017 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		863	1,763
Purchases of items of property, plant and equipment	13	(3,686)	(1,010)
Proceeds from disposal of items of property, plant and equipment		–	1,204
Additions to intangible assets	16	(308)	(461)
Acquisition of associates		(51,980)	(6,000)
Deposit paid for acquisition of an entity		(5,690)	(96,007)
Acquisition of a subsidiary	33	(3,298)	–
Disposal of subsidiaries	34	(415)	–
Proceeds from disposal of equity investments at fair value through other comprehensive income		4,669	–
Net cash flows used in investing activities		(59,845)	(100,511)
NET INCREASE/(DECREASE) IN CASH AND CASH EQUIVALENTS		(175,568)	55,153
Cash and cash equivalents at beginning of year		368,949	301,665
Effect of foreign exchange rate changes, net		(4,946)	12,131
CASH AND CASH EQUIVALENTS AT END OF YEAR	24	188,435	368,949

1. CORPORATE AND GROUP INFORMATION

King Stone Energy Group Limited (the "Company") is a limited liability company incorporated in Hong Kong and shares of which are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The registered office of the Company is located at 6th Floor, Bank of China Building, 2A Des Voeux Road Central, Central, Hong Kong.

During the year, the Company and its subsidiaries (collectively referred to as the "Group") were principally involved in (i) the mining and sale of silver in the mainland ("Mainland China") of the People's Republic of China (the "PRC"); (ii) the oil and gas extraction, production and sale in the United States of America (the "USA"); (iii) the provision of asset financing services in the PRC; and (iv) the trading of liquefied natural gas ("LNG") in the PRC.

The immediate holding company of the Company is Belton Light Limited, which is incorporated in the British Virgin Islands, and, in the opinion of the directors, the ultimate holding company of the Company is Jade Bird Energy Fund II, L.P., which is an exempted limited partnership registered in the Cayman Islands.

Information about principal subsidiaries

Particulars of the Company's principal subsidiaries are as follows:

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary share capital/registered capital	Percentage of equity attributable to the Company	Principal activities
Million Grow Investments Limited ("Million Grow")	British Virgin Islands	US$57,404	50[@]	Investment holding
福建磊鑫礦業有限公司 (Fujian Leixin Mining Company Ltd., "Fujian Leixin")*[△]	PRC/Mainland China	RMB59,600,000	50[@]	Investment holding
福安市磊鑫礦業有限公司 (Fu'an City Leixin Mining Company Ltd., "Fu'an Leixin")*[△]	PRC/Mainland China	RMB10,000,000	50[@]	Mining and sale of silver
柘榮縣磊鑫礦業有限公司 (Tuorong County Leixin Mining Company Ltd.,"Tuorong Leixin")*[△]	PRC/Mainland China	RMB20,500,000	42[@]	Silver mine exploration

1. CORPORATE AND GROUP INFORMATION (Continued)

Information about principal subsidiaries (Continued)

Company name	Place of incorporation/ registration and place of operations	Nominal value of issued ordinary share capital/registered capital	Percentage of equity attributable to the Company	Principal activities
Craton Alpha LLC	USA	US$10,000,000	100	Oil and gas extraction, production and sale
北京青瑞融資租賃有限公司 (Beijing Qingrui Finance Leasing Company Ltd.)[&#]	PRC/Mainland China	US$10,000,000	100	Provision of finance leasing service
青瑞國際融資租賃有限公司 (Qingrui International Finance Leasing Company Limited)[&#]	PRC/Mainland China	RMB40,000,000	100	Provision of finance leasing service
青瑞商業保理有限公司 (Qingrui Business Factoring Company Limited)[&#]	PRC/Mainland China	RMB90,000,000	100	Provision of factoring service
King Stone Energy (Singapore) Co. Pte. Ltd.[#]	Singapore	SG$1	100	Trading of commodities
陝西萬喜物流有限公司 (Shaanxi Wanxi Logistics Co., Ltd, "Shaanxi Wanxi")[*α]	PRC/Mainland China	RMB10,000,000	51	Trading of LNG

[#] Directly held by the Company.

[*] Registered as limited liability companies under PRC law.

[&] Registered as wholly-foreign-owned enterprises under PRC law.

[@] Million Grow is accounted for as a subsidiary because the Group has contractual rights to appoint a majority of directors to control the board of directors of Million Grow, which has the power to direct the relevant activities of Million Grow that mostly affect returns. Accordingly, Million Grow's subsidiaries, namely Fujian Leixin, Fu'an Leixin and Tuorong Leixin, are also accounted for as subsidiaries of the Group.

[Δ] Subsidiaries of Million Grow.

[α] Acquired during the year (note 33).

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

2.1 BASIS OF PREPARATION

These financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the Hong Kong Companies Ordinance. They have been prepared under the historical cost convention, except for listed equity investments and derivative financial instruments which have been measured at fair value. These financial statements are presented in Hong Kong dollar ("HK$") and all values are rounded to the nearest thousand except when otherwise indicated.

2.1 BASIS OF PREPARATION (Continued)

Basis of consolidation

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

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

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

(b) rights arising from other contractual arrangements; and

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

The financial statements of the subsidiaries are prepared for the same reporting period as the Company. Adjustments are made to bring into line any dissimilar accounting policies that may exist. The results of subsidiaries are consolidated from the date on which the Group obtains control, and continue to be consolidated until the date that such control ceases.

Profit or loss and each component of other comprehensive income are attributed to shareholders of the Company and to the non-controlling interests, even if this results in the non-controlling interests having a deficit balance. All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control described above. A change in the ownership interest of a subsidiary, without a loss of control, is accounted for as an equity transaction.

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

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES

The Group has adopted the following new and revised HKFRSs for the first time for the current year's financial statements:

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

Other than as explained below regarding the impact of HKFRS 9, HKFRS 15 and Amendments to HKFRS 15, the adoption of the above new and revised standards has had no significant financial effect on these financial statements.

(a) HKFRS 9 *Financial Instruments* replaces HKAS 39 *Financial Instruments: Recognition and Measurement* for annual periods beginning on or after 1 January 2018, bringing together all three aspects of the accounting for financial instruments: classification and measurement, impairment and hedge accounting.

The Group has recognised the transition adjustment against the applicable opening balances in equity at 1 January 2018. Therefore, the comparative information was not restated and continues to be reported under HKAS 39.

Classification and measurement

Except for listed equity investments which were classified as available-for-sale investments as at 31 December 2017, all financial assets and liabilities of the Group as at 31 December 2017 were classified as loans and receivables, and financial liabilities at amortised cost, respectively. Upon the adoption of HKFRS 9, the listed equity investments as at 31 December 2017 were reclassified as equity investments at fair value through other comprehensive income and the Group's other financial assets as at 31 December 2017 are reclassified as financial assets at amortised cost from 1 January 2018 and the Group's financial liabilities as at 31 December 2017 continued to be classified as financial liabilities at amortised cost from 1 January 2018. There was no change in the measurement of the Group's financial assets and liabilities of the Group as at 31 December 2017 upon adoption of HKFRS 9.

Impairment

The Group did not recognise additional impairment loss allowance against financial assets upon initial application of HKFRS 9 on 1 January 2018 as the amounts involved are insignificant.

2.2 CHANGES IN ACCOUNTING POLICIES AND DISCLOSURES (Continued)

(b) HKFRS 15 and its amendments replace HKAS 11 *Construction Contracts*, HKAS 18 *Revenue* and related interpretations and they apply, with limited exceptions, to all revenue arising from contracts with customers. HKFRS 15, establishes a new five-step model to account for revenue arising from contracts with customers. Under HKFRS 15, revenue is recognised at an amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring goods or services to a customer. The principles in HKFRS 15 provide a more structured approach for measuring and recognising revenue. The standard also introduces extensive qualitative and quantitative disclosure requirements, including disaggregation of total revenue, information about performance obligations, changes in contract asset and liability account balances between periods and key judgements and estimates. The disclosures are included in note 5 to the financial statements. As a result of the application of HKFRS 15, the Group has changed the accounting policy with respect to revenue recognition disclosed in note 2.4 to the financial statements.

The Group's principal activities which are in the scope of HKFRS 15 consist of sale of silver, natural gas, oil and LNG. After assessment, the accounting policy adopted under HKAS 18 for revenue recognition of sale of goods based on the time of transfer of the significant risks and rewards of ownership will still be an appropriate method under HKFRS 15. Accordingly, the adoption of HKFRS 15 had no significant impact on the Group's financial position and financial performance but resulted in more disclosures in the financial statements.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS

The Group has not applied the following new and revised HKFRSs, that have been issued but are not yet effective, in these financial statements:

Amendments to HKFRS 3	*Definition of a Business*[2]
Amendments to HKFRS 9	*Prepayment Features with Negative Compensation*[1]
Amendments to HKFRS 10 and HKAS 28	*Sale or Contribution of Assets between an Investor and its Associate or Joint Venture*[4]
HKFRS 16	*Leases*[1]
HKFRS 17	*Insurance Contracts*[3]
Amendments to HKAS 1 and HKAS 8	*Definition of Material*[2]
Amendments to HKAS 19	*Plan Amendment, Curtailment or Settlement*[1]
Amendments to HKAS 28	*Long-term Interests in Associates and Joint Ventures*[1]
HK(IFRIC)-Int 23	*Uncertainty over Income Tax Treatments*[1]
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23[1]

1 Effective for annual periods beginning on or after 1 January 2019
2 Effective for annual periods beginning on or after 1 January 2020
3 Effective for annual periods beginning on or after 1 January 2021
4 No mandatory effective date yet determined but available for adoption

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

Further information about those HKFRSs that are expected to be applicable to the Group is described follows:

(a) Amendments to HKFRS 3 clarify and provide additional guidance on the definition of a business. The amendments clarify that for an integrated set of activities and assets to be considered a business, it must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create output. A business can exist without including all of the inputs and processes needed to create outputs. The amendments remove the assessment of whether market participants are capable of acquiring the business and continue to produce outputs. Instead, the focus is on whether acquired inputs and acquired substantive processes together significantly contribute to the ability to create outputs. The amendments have also narrowed the definition of outputs to focus on goods or services provided to customers, investment income or other income from ordinary activities. Furthermore, the amendments provide guidance to assess whether an acquired process is substantive and introduce an optional fair value concentration test to permit a simplified assessment of whether an acquired set of activities and assets is not a business. The Group expects to adopt the amendments prospectively from 1 January 2020.

(b) Amendments to HKFRS 10 and HKAS 28 address an inconsistency between the requirements in HKFRS 10 and in HKAS 28 in dealing with the sale or contribution of assets between an investor and its associate or joint venture. The amendments require a full recognition of a gain or loss when the sale or contribution of assets between an investor and its associate or joint venture constitutes a business. For a transaction involving assets that do not constitute a business, a gain or loss resulting from the transaction is recognised in the investor's profit or loss only to the extent of the unrelated investor's interest in that associate or joint venture. The amendments are to be applied prospectively. The previous mandatory effective date of amendments to HKFRS 10 and HKAS 28 was removed by the HKICPA in January 2016 and a new mandatory effective date will be determined after the completion of a broader review of accounting for associates and joint ventures. However, the amendments are available for adoption now.

(c) HKFRS 16 replaces HKAS 17 *Leases*, HK(IFRIC)-Int 4 *Determining whether an Arrangement Contains a Lease,* HK (SIC)-Int 15 *Operating Leases – Incentives* and HK (SIC)-Int 27 *Evaluating the Substance of Transactions Involving the Legal Form of a Lease*. The standard sets out the principles for the recognition, measurement, presentation and disclosure of leases and requires lessees to recognise assets and liabilities for most leases. The standard includes two elective recognition exemptions for lessees – leases of low-value assets and short-term leases. At the commencement date of a lease, a lessee will recognise a liability to make lease payments (i.e., the lease liability) and an asset representing the right to use the underlying asset during the lease term (i.e., the right-of-use asset). The right-of-use asset is subsequently measured at cost less accumulated depreciation and any impairment losses unless the right-of-use asset meets the definition of investment property in HKAS 40 *Investment Property*, or relates to a class of property, plant and equipment to which the revaluation model is applied. The lease liability is subsequently increased to reflect the interest on the lease liability and reduced for the lease payments. Lessees will be required to separately recognise the interest expense on the lease liability and the depreciation expense on the right-of-use asset. Lessees will also be required to remeasure the lease liability upon the occurrence of certain events, such as change in the lease term and change in future lease payments resulting from a change in an index or rate used to determine those payments. Lessees will generally recognise the amount of the remeasurement of the lease liability as an adjustment to the right-of-use asset. Lessor accounting under HKFRS 16 is substantially unchanged from the accounting under HKAS 17. Lessors will continue to classify all leases using the same classification principle as in HKAS 17 and distinguish between operating leases and finance leases. HKFRS 16 requires lessees and lessors to make more extensive disclosures than under HKAS 17. Lessees can choose to apply the standard using either a full retrospective or a modified retrospective approach.

2.3 ISSUED BUT NOT YET EFFECTIVE HONG KONG FINANCIAL REPORTING STANDARDS (Continued)

(c) (Continued)

The Group will adopt HKFRS 16 from 1 January 2019. The Group plans to adopt the transitional provisions in HKFRS 16 to recognise the cumulative effect of initial adoption as an adjustment to the opening balance of accumulated losses as at 1 January 2019 and will not restate the comparatives. In addition, the Group plans to apply the new requirements to contracts that were previously identified as leases applying HKAS 17 and measure the lease liability at the present value of the remaining lease payments, discounted using the Group's incremental borrowing rate at the date of initial application. The right-of-use asset will be measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before the date of initial application. The Group plans to use the exemptions allowed by the standard on lease contracts whose lease terms end within 12 months as of the date of initial application. The Group expects to adopt HKFRS 16 on 1 January 2019 and is currently assessing the impact of HKFRS 16 upon adoption.

(d) Amendments to HKAS 1 and HKAS 8 provide a new definition of material. The new definition states that information is material if omitting, misstating or obscuring it could reasonably be expected to influence decisions that the primary users of general purpose financial statements make on the basis of those financial statements. The amendments clarify that materiality will depend on the nature or magnitude of information. A misstatement of information is material if it could reasonably be expected to influence decisions made by the primary users. The Group expects to adopt the amendments prospectively from 1 January 2020. The amendments are not expected to have any significant impact on the Group's financial statements.

(e) Amendments to HKAS 28 clarify that the scope exclusion of HKFRS 9 only includes interests in an associate or joint venture to which the equity method is applied and does not include long-term interests that in substance form part of the net investment in the associate or joint venture, to which the equity method has not been applied. Therefore, an entity applies HKFRS 9, rather than HKAS 28, including the impairment requirements under HKFRS 9, in accounting for such long-term interests. HKAS 28 is then applied to the net investment, which includes the long-term interests, only in the context of recognising losses of an associate or joint venture and impairment of the net investment in the associate or joint venture. The Group expects to adopt the amendments on 1 January 2019 and will assess its business model for such long-term interests based on the facts and circumstances that exist on 1 January 2019 using the transitional requirements in the amendments. The amendments are not expected to have any significant impact on the Group's financial statements.

(f) HK(IFRIC)-Int 23 addresses the accounting for income taxes (current and deferred) when tax treatments involve uncertainty that affects the application of HKAS 12 *Income Taxes* (often referred to as "uncertain tax positions"). The interpretation does not apply to taxes or levies outside the scope of HKAS 12, nor does it specifically include requirements relating to interest and penalties associated with uncertain tax treatments. The interpretation specifically addresses (i) whether an entity considers uncertain tax treatments separately; (ii) the assumptions an entity makes about the examination of tax treatments by taxation authorities; (iii) how an entity determines taxable profits or tax losses, tax bases, unused tax losses, unused tax credits and tax rates; and (iv) how an entity considers changes in facts and circumstances. The interpretation is to be applied retrospectively, either fully retrospectively without the use of hindsight or retrospectively with the cumulative effect of application as an adjustment to the opening equity at the date of initial application, without the restatement of comparative information. The Group expects to adopt the interpretation from 1 January 2019. The interpretation is not expected to have any significant impact on the Group's financial statements.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Investments in associates

An associate is an entity in which the Group has a long term interest of generally not less than 20% of the equity voting rights and over which it is in a position to exercise significant influence. Significant influence is the power to participate in the financial and operating policy decisions of the invested, but is not control or joint control over those policies.

The Group's investments in associates are stated in the consolidated statement of financial position at the Group's share of net assets under the equity method of accounting, less any impairment losses.

The Group's share of the post-acquisition results and other comprehensive income of associates is included in profit or loss and other comprehensive income, respectively. In addition, when there has been a change recognised directly in the equity of the associate, the Group recognises its share of any changes, when applicable, in the consolidated statement of changes in equity. Unrealised gains and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's investments in the associates, except where unrealised losses provide evidence of an impairment of the assets transferred. Goodwill arising from the acquisition of associates is included as part of the Group's investments in associates.

If an investment in an associate becomes an investment in a joint venture, the retained interest is not remeasured. Instead, the investment continues to be accounted for under the equity method. In all other cases, upon loss of significant influence over the associate, the Group measures and recognises any retained investment at its fair value. Any difference between the carrying amount of the associate upon loss of significant influence and the fair value of the retained investment and proceeds from disposal is recognised in profit or loss.

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 holding company 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 holding company, 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;

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Related parties (Continued)

(b) (Continued)

(vi) the entity is controlled or jointly controlled by a person identified in (a);

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a holding company 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 a holding company of the Group.

Business combinations and goodwill

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Business combinations and goodwill (Continued)

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

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

Fair value measurement

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

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

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

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

Level 1 – based on quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is observable, either directly or indirectly
Level 3 – based on valuation techniques for which the lowest level input that is significant to the fair value measurement is unobservable

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of non-financial assets

Where an indication of impairment exists, or when annual impairment testing for an asset is required (other than inventories and financial assets), the asset's recoverable amount is estimated. An asset's recoverable amount is the higher of the asset's or cash-generating unit's value in use and its fair value less costs of disposal, and is determined for an individual asset, unless the asset does not generate cash inflows that are largely independent of those from other assets or groups of assets, in which case the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is recognised only if the carrying amount of an asset exceeds its recoverable amount. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is charged to profit or loss in the period in which it arises in those expense categories consistent with the function of the impaired asset.

An assessment is made at the end of each reporting period as to whether there is an indication that previously recognised impairment losses may no longer exist or may have decreased. If such an indication exists, the recoverable amount is estimated. A previously recognised impairment loss of an asset other than goodwill is reversed only if there has been a change in the estimates used to determine the recoverable amount of that asset, but not to an amount higher than the carrying amount that would have been determined (net of any depreciation/amortisation) had no impairment loss been recognised for the asset in prior years. A reversal of such an impairment loss is credited to profit or loss in the period in which it arises.

Property, plant and equipment and depreciation

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

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

Depreciation of plant and machinery used in silver mines and oil and gas fields is calculated on the unit-of-production basis whereby the annual depreciation amount is determined based on the actual production volume over the total estimated proven and probable reserves of the silver mines and oil and gas fields, respectively.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Property, plant and equipment and depreciation (Continued)

Depreciation of other property, plant and equipment is calculated on the straight-line basis to write off the cost of each item of property, plant and equipment to its residual value over its estimated useful life. The principal annual rates used for this purpose are as follows:

Buildings	Over the lease term
Leasehold improvements	Over the shorter of the lease terms and five years
Plant and machinery other than those used in silver mines and oil and gas fields	6.7% to 33%
Furniture, fixtures and equipment	10% to 33%
Motor vehicles	20% to 25%

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

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

Construction in progress represents production facilities under construction, which are stated at cost less any impairment losses, and are not depreciated. Cost comprises the direct costs of construction and capitalised borrowing costs on related borrowed funds during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use.

Intangible assets

Intangible assets acquired separately are measured on initial recognition at cost. The useful lives of intangible assets of the Group are assessed to be finite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at least at each financial year end.

An intangible asset is derecognised on disposal or no future economic benefits are expected from its use or disposal. Any gain or loss on disposal or retirement recognised in profit or loss in the period the intangible asset is derecognised is the difference between the net sales proceeds and the carrying amount of the relevant intangible asset.

Mineral interests

Mineral interests are stated at cost less accumulated amortisation and any impairment losses. Amortisation of mineral interests is calculated by the unit-of-production method based on the actual production volume over the total estimated proven and probable reserves of the relevant mineral interests.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Intangible assets (Continued)

Exploration and evaluation assets

Exploration and evaluation assets include an exploration permit of a silver mine and capitalised lease payments to various landlords and brokers under mineral interest leasing arrangements for the exploration of oil and gas. The exploration and evaluation assets are stated at cost and subject to test for impairment annually.

Patents

Purchased patents are stated at cost less accumulated amortisation and any impairment losses. Amortisation of patents is calculated on the straight-line basis over their estimated useful lives of 20 years.

Operating leases

Leases where substantially all the rewards and risks of ownership of assets remain with the lessor are accounted for as operating leases. Where the Group is the lessee, rentals payable under operating leases, net of any incentives received from the lessor, are charged to profit or loss on the straight-line basis over the lease terms.

Prepaid land premiums under operating leases are initially stated at cost and subsequently amortised on the straight-line basis over the lease term of 50 years.

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018)

Initial recognition and measurement

Financial assets are classified, at initial recognition, as subsequently measured at amortised cost or fair value through other comprehensive income, as appropriate.

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. With the exception of trade receivables that do not contain a significant financing component or for which the Group has applied the practical expedient of not adjusting the effect of a significant financing component, the Group initially 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. Trade 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 in accordance with the policies set out for "Revenue recognition (applicable from 1 January 2018)" below.

In order for a financial asset (debt instrument) to be classified and measured at amortised cost or fair value through other comprehensive income, it needs to give rise to cash flows that are solely payments of principal and interest ("SPPI") on the principal amount outstanding.

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.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

Subsequent measurement

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

(a) Financial assets at amortised cost (debt instruments)

The Group measures financial assets 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 financial assets in order to collect contractual cash flows.

- 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.

(b) Financial assets designated at fair value through other comprehensive income (equity investments)

Upon initial recognition, the Group can elect to classify irrevocably its equity investments as equity investments at fair value through other comprehensive income when they meet the definition of equity under HKAS 32 *Financial Instruments:* Presentation and are not held for trading. The classification is determined on an instrument-by-instrument basis.

Gains and losses on these financial assets are never recycled to profit or loss. Dividends are recognised as other income in profit or loss when the right of payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably, except when the Group benefits from such proceeds as a recovery of part of the cost of the financial asset, in which case, such gains are recorded in other comprehensive income. Equity investments at fair value through other comprehensive income are not subject to impairment assessment.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Investments and other financial assets (policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

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

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

Subsequent measurement

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

(a) Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. After initial measurement, such assets are subsequently measured at amortised cost using the effective interest rate method less any allowance for impairment. Amortised cost is calculated by taking into account any discount or premium on acquisition and includes fees or costs that are an integral part of the effective interest rate. The effective interest rate amortisation is included in other income in profit or loss. The loss arising from impairment is recognised in profit or loss in other expenses.

(b) Available-for-sale investments

Available-for-sale investments are non-derivative financial assets in listed and unlisted equity investments. Equity investments classified as available for sale are those which are neither classified as held for trading nor designated as at fair value through profit or loss.

After initial recognition, available-for-sale investments are subsequently measured at fair value, with unrealised gains or losses recognised as other comprehensive income in the available-for-sale investment revaluation reserve until the investment is derecognised, at which time the cumulative gain or loss is recognised in profit or loss in other income, or until the investment is determined to be impaired, when the cumulative gain or loss is reclassified from the available-for-sale investment revaluation reserve to profit or loss in other expenses. Dividends earned whilst holding the available-for-sale investments are reported as dividend income and are recognised in profit or loss as other income in accordance with the policy set out for "Revenue recognition (applicable before 1 January 2018)" below.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Derecognition of financial assets (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

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

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

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

Continuing involvement that takes the form of a guarantee over the transferred asset is measured at the lower of the original carrying amount of the asset and the maximum amount of consideration that the Group could be required to repay.

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.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKFRS 9 applicable from 1 January 2018) (Continued)

General approach (Continued)

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.

Debt investments at fair value through other comprehensive income and 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 and contract assets 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.

For trade receivables that contain a significant financing component and lease receivables, the Group chooses as its accounting policy to adopt the simplified approach in calculating ECLs with policies as described above.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (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 a group of financial assets is impaired. An impairment exists if one or more events that occurred after the initial recognition of the asset have an impact on the estimated future cash flows of the financial asset or the group of financial assets that can be reliably estimated. Evidence of impairment may include indications that a debtor or a group of debtors is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that they will enter bankruptcy or other financial reorganisation and observable data indicating that there is a measurable decrease in the estimated future cash flows, such as changes in arrears or economic conditions that correlate with defaults.

Financial assets carried at amortised cost

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Impairment of financial assets (policies under HKAS 39 applicable from 1 January 2018) (Continued)

Available-for-sale investments

For available-for-sale investments, the Group assesses at the end of each reporting period whether there is objective evidence that an investment or a group of investments is impaired.

In the case of equity investments classified as available for sale, objective evidence would include a significant or prolonged decline in the fair value of an investment below its cost. "Significant" is evaluated against the original cost of the investment and "prolonged" against the period in which the fair value has been below its original cost. Where there is evidence of impairment, the cumulative loss – measured as the difference between the acquisition cost and the current fair value, less any impairment loss on that investment previously recognised in profit or loss – is removed from other comprehensive income and recognised in profit or loss. Impairment losses on equity instruments classified as available for sale are not reversed through profit or loss. Increases in their fair value after impairment are recognised directly in other comprehensive income.

The determination of what is "significant" or "prolonged" requires judgement. In making this judgement, the Group evaluates, among other factors, the duration or extent to which the fair value of an investment is less than its cost.

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018)

Initial recognition and measurement

Financial liabilities are classified, at initial recognition, as financial liabilities at amortised cost, which are recognised initially at fair value and net of directly attributable transaction costs.

Subsequent measurement

After initial recognition, financial liabilities at amortised cost are subsequently measured at amortised cost, using the effective interest method unless the effect of discounting would be immaterial, in which case they are stated at cost. Gains and losses are recognised in profit or loss when the liabilities are derecognised as well as through the effective interest rate amortisation process.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial liabilities (policies under HKFRS 9 applicable from 1 January 2018 and policies under HKAS 39 applicable before 1 January 2018) (Continued)

Derecognition of financial liabilities

A financial liability is derecognised when the obligation under the liability is discharged or cancelled, or expires.

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

Derivative financial instruments

The Group has a practice of selling a commodity within a short period after purchase and generated profit or incurred loss from these transactions. Since these contracts are not entered into for the purpose of the receipt or delivery of the commodity in accordance with the Group's expected purchase, sale or usage requirements and, accordingly, these contracts are accounted for as derivative financial instruments. Any gains or losses from the trading and the fair value movements of these contracts are recognised as other income in profit or loss.

Offsetting of financial instruments (policies under HKFRS 9 applicable from 1 January 2018 and HKAS 39 applicable before 1 January 2018)

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

Inventories

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

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits that have a short maturity of generally within three months when acquired.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Provisions

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

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

Income tax

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

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

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

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

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

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

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

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

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Income tax (Continued)

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be utilised. Unrecognised deferred tax assets are reassessed at the end of each reporting period and are recognised to the extent that it has become probable that sufficient taxable profit will be available to allow all or part of the deferred tax asset to be recovered.

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

Deferred tax assets and deferred tax liabilities are offset if and only if the Group has a legally enforceable right to set off current tax assets and current tax liabilities and the deferred tax assets and deferred tax liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend either to settle current tax liabilities and assets on a net basis, or to realise the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered.

Revenue recognition (applicable from 1 January 2018)

Revenue from contracts with customers

Revenue from contracts with customers is recognised when control of goods or services is transferred to the customers at an amount that reflects the consideration to which the Group expects to be entitled in exchange for those goods or services.

When the consideration in a contract includes a variable amount, the amount of consideration is estimated to which the Group will be entitled in exchange for transferring the goods or services to the customer. The variable consideration is estimated at contract inception and constrained until it is highly probable that a significant revenue reversal in the amount of cumulative revenue recognised will not occur when the associated uncertainty with the variable consideration is subsequently resolved.

When the contract contains a financing component which provides the customer a significant benefit of financing the transfer of goods or services to the customer for more than one year, revenue is measured at the present value of the amount receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception. When the contract contains a financing component which provides the Group a significant financial benefit for more than one year, revenue recognised under the contract includes the interest expense accreted on the contract liability under the effective interest method. For a contract where the period between the payment by the customer and the transfer of the promised goods or services is one year or less, the transaction price is not adjusted for the effects of a significant financing component, using the practical expedient in HKFRS 15.

Revenue from the sale of goods is recognised at the point in time when control of the asset is transferred to the customer, generally on delivery of the asset.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Revenue recognition (applicable from 1 January 2018) (Continued)

Revenue from other sources

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

(b) Dividend income is recognised when the shareholders' right to receive payment has been established, it is probable that the economic benefits associated with the dividend will flow to the Group and the amount of the dividend can be measured reliably.

Revenue recognition (applicable before 1 January 2018)

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

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

(b) management fee income, on a time proportion basis over the service period; and

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

Contract liabilities (applicable from 1 January 2018)

A contract liability is the obligation to transfer goods or services to a customer for which the Group has received a consideration (or an amount of consideration that is due) from the customer. If a customer pays the consideration before the Group transfers goods or services to the customer, a contract liability is recognised when the payment is made or the payment is due (whichever is earlier). Contract liabilities are recognised as revenue when the Group performs under the contract.

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Employee benefits – Pension schemes

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

Subsidiaries and associates of the Group in Mainland China and Japan contribute on a monthly basis to defined contribution schemes organised by relevant municipal and provincial governments in the PRC and Japan. The municipal and provincial governments undertake to assume the retirement benefits payable to all existing and future retired employees under these plans and the Group has no further obligations for respective post-retirement benefits beyond the contributions made. The contributions to the schemes are charged to profit or loss as and when incurred. The Group's employer contributions vest fully once made.

Borrowing costs

Borrowing costs consist of interest and other costs that an entity incurs in connection with the borrowing of funds, and are expensed in the period in which they are incurred.

Foreign currencies

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

Differences arising on settlement or translation of monetary items are recognised in profit or loss with the exception of monetary items that are designated as part of the hedge of the Group's net investment of a foreign operation. These are recognised in other comprehensive income until the net investment is disposed of, at which time the cumulative amount is reclassified to profit or loss. Tax charges and credits attributable to exchange differences on those monetary items are also recorded in other comprehensive income.

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

2.4 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Foreign currencies (Continued)

In determining the exchange rate on initial recognition of the related asset, expense or income on the derecognition of a non-monetary asset or non-monetary liability relating to an advance consideration, the date of initial transaction is the date on which the Group initially recognises the non-monetary asset or non-monetary liability arising from the advance consideration. If there are multiple payments or receipts in advance, the Group determines the transaction date for each payment or receipt of the advance consideration.

The functional currencies of certain overseas subsidiaries and associates are currencies other than the Hong Kong dollar. As at the end of the reporting period, the assets and liabilities of these entities are translated into the presentation currency of the Company at the exchange rates prevailing at the end of the reporting period and their statements of profit or loss are translated into Hong Kong dollars at the weighted average exchange rates for the year. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve. On disposal of a foreign operation, the component of other comprehensive income relating to that particular foreign operation is recognised in profit or loss.

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

For the purpose of the consolidated statement of cash flows, the cash flows of overseas subsidiaries are translated into Hong Kong dollars at the exchange rates ruling at the dates of the cash flows. Frequently recurring cash flows of overseas subsidiaries which arise throughout the year are translated into Hong Kong dollars at the weighted average exchange rates for the year.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES

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

The major judgements, 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 described below:

Impairment of non-current assets

The Group has to exercise judgement in determining whether an asset is impaired or the event previously causing the asset impairment no longer exists, particularly in assessing: (1) whether an event has occurred that may affect the asset value or such event affecting the asset value has not been in existence; (2) whether the carrying value of an asset can be supported by the net present value of future cash flows which are estimated based upon the continued use of the asset or disposal; and (3) the appropriate key assumptions to be applied in preparing cash flow projections including whether these cash flow projections are discounted using an appropriate rate. Changing the assumptions selected by management to determine the level of impairment, including the discount rates or the growth rate assumptions in the cash flow projections, could materially affect the net present value used in the impairment test. Further details of parameters and assumptions used in the impairment assessment of the Group's non-current assets (including property, plant and equipment, prepaid land premiums and intangible assets) are set out in note 17 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Consolidation of an entity in which the Group holds less than a majority of voting rights

The Group considers that it controls Million Grow even though it owns only 50% of the voting rights. This assessment is based on the fact that the Group can appoint a majority portion of directors in the board of Million Grow such that the Group has the power to control the business activities of Million Grow, including the relevant activities which most affect the returns.

Useful lives and residual values of property, plant and equipment

In determining the useful lives and residual values of items of property, plant and equipment, the Group has to consider various factors, such as technical or commercial obsolescence arising from changes or improvements in production, or from a change in the market demand for the product or service output of the asset, the expected usage of the asset, the expected physical wear and tear, the care and maintenance of the asset, and legal or similar limits in the use of the asset. The estimation of the useful life of the asset is based on the experience of the Group with similar assets that are used in a similar way. Additional depreciation is made if the estimated useful lives and/or the residual values of items of property, plant and equipment are different from the previous estimation. Useful lives and residual values are reviewed at each financial year end date based on changes in circumstances. The net carrying amount of property, plant and equipment carried in the consolidated statement of financial position as at 31 December 2018 was HK$30,706,000 (2017: HK$42,574,000) (note 13).

Mine reserves

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

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Exploration and evaluation expenditures

The application of the Group's accounting policy for exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from either future exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in profit or loss in the period when the new information becomes available. The net carrying amount of the exploration and evaluation assets carried in the consolidated statement of financial position as at 31 December 2018 was HK$137,436,000 (2017: HK$222,378,000) (note 16).

Write-down of inventories to net realisable value

Write-down of inventories to net realisable value is made based on the ageing and estimated net realisable value of inventories. The assessment of the write-down amount requires management's estimates and judgement. Where the actual outcome or expectation in the future is different from the original estimate, the differences will impact the carrying value of inventories and write-down/write-back of inventories in the period in which the estimate has been changed. The net carrying amount of inventories in the consolidated statement of financial position as at 31 December 2018 was HK$154,000 (2017: HK$1,203,000) (note 20).

Provision for ECLs on lease, factoring, trade and other receivables

The Group recognises an allowance for ECLs for lease, factoring, trade and other receivables. 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.

The allowance for ECLs is determined by the Group based on the average of historical incurred credit loss experience in the past years and, where material, adjusted for forward-looking factors specific to the debtors and the economic environment.

The Group's historical credit loss experience and forecast of economic conditions may not be representative of debtor's actual default in the future and significant management estimates are required in the estimates. When the actual outcome or expectation in future is different from the original estimates, such differences will impact on the carrying amounts of these receivables and the amount of ECLs provided or reversed in the periods in which such estimates have been changed. The information about the ECLs on the Group's lease, factoring, trade and other receivables are disclosed in notes 21, 22 and 23 to the financial statements.

3. SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (Continued)

Current tax

The Group is subject to income taxes in a number of jurisdictions in which the Group has operations. The Group carefully evaluates tax implications of its transactions in accordance with prevailing tax regulations and makes tax provision accordingly. However, judgement is required in determining the Group's provision for income taxes as there are many transactions and calculations, of which the ultimate tax determination is uncertain, during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, the differences will impact on the income tax and deferred tax provision in the periods in which the determination is made.

The carrying amount of current income tax payables carried as liabilities in the consolidated statement of financial position as at 31 December 2018 was HK$16,824,000 (2017: HK$17,050,000).

4. OPERATING SEGMENT INFORMATION

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

(a) the "Silver mining" segment engages in the mining and sale of silver in the PRC;

(b) the "Oil and gas" segment engages in oil and gas exploration, production and sale in the USA;

(c) the "Asset financing" segment engages in the provision of finance leasing and factoring services in the PRC; and

(d) the "LNG" segment engages in the trading of LNG in the PRC.

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

Segment assets exclude investments in associates, available-for-sale investments, equity instruments at fair value through other comprehensive income, restricted cash, cash and cash equivalents and corporate and other unallocated assets as these assets are managed on a group basis.

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

4. OPERATING SEGMENT INFORMATION (Continued)

	Silver mining		Oil and gas		Asset financing		LNG		Total	
	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
Segment revenue – Sales to external customers (note 5)	2,028	–	5,159	6,475	12,803	12,277	3,563	–	23,553	18,752
Segment results	(140,994)	(97,779)	(8,550)	(17,793)	5,981	8,714	(2,576)	–	(146,139)	(106,858)
Reconciliation:										
Share of losses of associates									(386)	(1,561)
Foreign exchange gain/(loss), net									(17,334)	34,516
Corporate and other unallocated expenses, net									(63,560)	(38,277)
Loss before tax									(227,419)	(112,180)
Income tax									18,259	5,873
Loss for the year									(209,160)	(106,307)
Segment assets	154,952	250,098	20,392	26,567	201,349	197,614	3,911	–	380,604	474,279
Reconciliation:										
Investments in associates									51,954	265
Equity investments at fair value through other comprehensive income									1,952	–
Available-for-sale investments									–	7,181
Restricted cash									360	379
Cash and cash equivalents									188,435	368,949
Corporate and other unallocated assets									131,345	100,009
Total assets									754,650	951,062
Segment liabilities	222,851	180,171	2,914	14,673	3,775	1,398	799	–	230,339	196,242
Reconciliation:										
Corporate and other unallocated liabilities									32,325	43,516
Total liabilities									262,664	239,758

4. OPERATING SEGMENT INFORMATION (Continued)

	Silver mining		Oil and gas		Asset financing		LNG		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Other segment information:										
Share of losses of associates:										
Unallocated assets									**386**	1,561
Depreciation:										
Segment assets	**964**	729	**1,967**	2,822	**6**	7	**150**	–	**3,087**	3,558
Unallocated assets									**213**	436
									3,300	3,994
Amortisation of prepaid land premiums	**65**	63	**–**	–	**–**	–	**–**	–	**65**	63
Amortisation of intangible assets	**–**	–	**142**	136	**1**	10	**–**	–	**143**	146
Impairment of items of property, plant and equipment	**8,181**	4,701	**4,047**	5,809	**–**	–	**–**	–	**12,228**	10,510
Impairment of intangible assets	**73,624**	29,969	**330**	415	**–**	–	**–**	–	**73,954**	30,384
Impairment of investment in an associate:										
Unallocated assets									**–**	4,128

4. OPERATING SEGMENT INFORMATION (Continued)

	Silver mining		Oil and gas		Asset financing		LNG		Total	
	2018 HK$'000	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000	**2018 HK$'000**	2017 HK$'000
Impairment of financial assets:										
Segment assets	**–**	–	**–**	–	**263**	–	**–**	–	**263**	–
Unallocated assets									**37,400**	1,249
									37,663	1,249
Impairment of goodwill	**–**	–	**–**	–	**–**	–	**2,136**	–	**2,136**	–
Loss on disposal of subsidiaries:										
Unallocated assets									**452**	–
Capital expenditure*:										
Segment assets	**2,534**	581	**291**	859	**36**	19	**1,689**	–	**4,550**	1,459
Unallocated assets									**1,133**	12
									5,683	1,471

* Capital expenditure consists of additions to property, plant and equipment and intangible assets including assets from the acquisition of a subsidiary.

4. OPERATING SEGMENT INFORMATION (Continued)

Geographical information

(a) Revenue from external customers

	2018 HK$'000	2017 HK$'000
Mainland China	**18,394**	12,277
USA	**5,159**	6,475
	23,553	18,752

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

(b) Non-current assets

	2018 HK$'000	2017 HK$'000
Mainland China	**198,620**	245,986
USA	**19,436**	25,519
Others	**7,606**	7
	225,662	271,512

The non-current asset information disclosed above is based on the locations of the assets and excludes financial instruments.

Information about major customers

The revenue generated from sales to each of the customers which individually contributed more than 10% of the Group's total revenue during the year is set out below:

	2018 HK$'000	2017 HK$'000
Customer A from the oil and gas segment	**4,193**	5,487
Customer B from the asset financing segment	**7,080**	6,891
Customer C from the asset financing segment	**3,256**	3,167
Customer D from the asset financing segment	**N/A***	2,219
Customer E from the LNG segment	**3,563**	N/A*

* The corresponding revenue of these customers is not disclosed as they individually did not contribute more than 10% of the Group's total revenue for the relevant year.

5. REVENUE

An analysis of the Group's revenue is as follows:

	2018 HK$'000	2017 HK$'000
Sales of goods	**10,750**	6,475
Interest income of asset financing service	**10,904**	10,319
Management fee income of asset financing service	**1,899**	1,958
	23,553	18,752

Notes:

(a) Disaggregation of revenue

Year ended 31 December 2018

Segments	**Silver mining** **HK$'000**	**Oil and gas** **HK$'000**	**Asset financing** **HK$'000**	**LNG** **HK$'000**	**Total** **HK$'000**
Type of goods or services:					
Revenue from contracts with customers – Sale of goods	**2,028**	**5,159**	**–**	**3,563**	**10,750**
Revenue from another source – Provision of asset financing service	**–**	**–**	**12,803**	**–**	**12,803**
Total revenue	**2,028**	**5,159**	**12,803**	**3,563**	**23,553**
Geographical market:					
Mainland China	**2,028**	**–**	**–**	**3,563**	**5,591**
USA	**–**	**5,159**	**–**	**–**	**5,159**
Total revenue from contracts with customers	**2,028**	**5,159**	**–**	**3,563**	**10,750**
Revenue from another source – Provision of asset financing service	**–**	**–**	**12,803**	**–**	**12,803**
Total revenue	**2,028**	**5,159**	**12,803**	**3,563**	**23,553**

5. REVENUE (Continued)

Notes: (Continued)

(a) Disaggregation of revenue (Continued)

Segments	Silver mining HK$'000	Oil and gas HK$'000	Asset financing HK$'000	LNG HK$'000	Total HK$'000
Timing of revenue recognition:					
Goods transferred at a point in time	**2,028**	**5,159**	**–**	**3,563**	**10,750**
Services transferred over time	**–**	**–**	**–**	**–**	**–**
Total revenue from contracts with customers	**2,028**	**5,159**	**–**	**3,563**	**10,750**
Revenue from another source –Provision of asset financing service	**–**	**–**	**12,803**	**–**	**12,803**
Total revenue	**2,028**	**5,159**	**12,803**	**3,563**	**23,553**

No revenue from the sale of goods was recognised in the current reporting period that was included in the contract liabilities at the beginning of the reporting period.

No revenue recognised during the year ended 31 December 2018 related to performance obligations satisfied in previous periods.

(b) Performance obligations

The performance obligation for the sale of goods is satisfied upon delivery of the goods and payment is generally due within 30 to 90 days from delivery, except for new customers, where payment in advance is normally required.

6. OTHER INCOME AND GAINS, NET

	2018 HK$'000	2017 HK$'000
Other income, net		
Bank interest income	163	322
Interest income of a loan receivable	700	1,441
Trading income, net*	784	2,525
Income from waiver of management fee#	14,468	–
Subsidy income	919	–
Others	116	4
	17,150	4,292
Gains, net		
Gain on disposal of items of property, plant and equipment	233	210
Gain on disposal of intangible assets (note 16(c))	–	1,229
Foreign exchange gain, net	–	34,516
	233	35,955
Other income and gains, net	17,383	40,247

* During the year, the Group entered into contracts to buy and sell a commodity with total purchase and sales amounts of HK$1,014,991,000 (2017: HK$172,180,000) and HK$1,015,775,000 (2017: HK$ 174,705,000), respectively. Certain of these sales were made to a company (and its subsidiaries) which has a director who was previously a director of the Company. During the year, the gross trading amount of the commodity with that related company and its subsidiaries amounted to HK$749,218,000 (2017: HK$174,705,000) and the associated net trading income amounted to HK$461,000 (2017: HK$2,525,000).

\# During the year, the directors of Craton Aplpha LLC, a subsidiary of the Company, have agreed and waived the management fee of HK$14,468,000 accrued to them since 2016.

7. FINANCE COSTS

An analysis of the Group's finance costs is as follows:

	2018 HK$'000	2017 HK$'000
Interest and other borrowing costs on overdue other loans	8,012	11,255
Penalties on overdue other loans	45,990	46,727
	54,002	57,982

8. LOSS BEFORE TAX

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

	Notes	2018 HK$'000	2017 HK$'000
Cost of inventories sold		**7,940**	2,321
Depreciation[@]	13	**3,300**	3,994
Amortisation of prepaid land premiums	14	**65**	63
Amortisation of intangible assets*	16	**143**	146
Auditor's remuneration		**2,200**	2,000
Minimum lease payments under operating leases of buildings		**5,262**	4,334
Employee benefit expense (including directors' remuneration–note 9):			
Wages, salaries and other benefits		**27,169**	31,208
Pension scheme contributions (defined contribution schemes)		**690**	609
		27,859	31,817
Foreign exchange loss/(gain), net		**17,334**[#]	(34,516)
Impairment of items of property, plant and equipment[#]	13	**12,228**	10,510
Impairment of goodwill[#]	15	**2,136**	–
Impairment of intangible assets[#]	16	**73,954**	30,384
Impairment of investment in an associate[#]	18(c)	**–**	4,128
Impairment of lease receivables[#]	21(e)	**263**	–
Impairment of a deposit[#]	23(c)	**861**	–
Impairment of available-for-sale investments[#]	19(a)	**–**	1,249
Impairment of a loan receivable[#]	22(b)	**35,731**	–
Impairment of amount due from an associate[#]		**808**	–
Loss on disposal of subsidiaries[#]	34	**452**	–

@ Depreciation of HK$2,846,000 (2017: HK$2,817,000) is included in "Cost of sales" in the consolidated statement of profit or loss and other comprehensive income.

* Amortisation of intangible assets of HK$142,000 (2017: HK$136,000) and HK$1,000 (2017: HK$10,000) are included in "Cost of sales" and "Administrative expenses" in the consolidated statement of profit or loss and other comprehensive income, respectively.

\# These items are included in "Other expenses, net" in the consolidated statement of profit or loss and other comprehensive income.

9. DIRECTORS' REMUNERATION

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

	2018 HK$'000	2017 HK$'000
Fees	8,520	7,933
Other emoluments:		
Salaries, allowances and benefits in kind	123	370
Total	8,643	8,303

An analysis of the directors' remuneration, on a named basis, is as follows:

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Total remuneration HK$'000
Year ended 31 December 2018			
Executive directors:			
Zong Hao (chief executive)	2,100	123	2,223
Gloria Chang Wong (chairman)	1,200	–	1,200
Xu Zhuliang	1,800	–	1,800
Benjamin Clark Danielson	1,500	–	1,500
He Qing	1,200	–	1,200
	7,800	123	7,923
Independent non-executive directors:			
Chiu Sui Keung	180	–	180
Liu Shengming	180	–	180
Lee Ping	180	–	180
Lu Binghui	180	–	180
	720	–	720
Total	8,520	123	8,643

9. DIRECTORS' REMUNERATION (Continued)

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Total remuneration HK$'000
Year ended 31 December 2017			
Executive directors:			
Zong Hao (chief executive)	2,100	370	2,470
Zhang Wanzhong*	127	–	127
Gloria Chang Wong#	843	–	843
Xu Zhuliang	1,800	–	1,800
Benjamin Clark Danielson	1,500	–	1,500
He Qing#	843	–	843
	7,213	370	7,583
Independent non-executive directors:			
Chiu Sui Keung	180	–	180
Liu Shengming	180	–	180
Lee Ping	180	–	180
Lu Binghui	180	–	180
	720	–	720
Total	7,933	370	8,303

* Retired on 2 June 2017

\# Appointed on 18 April 2017

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

10. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year included four (2017: three) directors, details of whose remuneration are set out in note 9 above. Details of the remuneration of the remaining one (2017: two) non-director, highest paid employees for the year are as follows:

	2018 HK$'000	2017 HK$'000
Salaries, allowances and benefits in kind	1,560	2,665
Pension scheme contributions	–	18
	1,560	2,683

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

	Number of employees	
	2018	2017
HK$1,000,001 to HK$1,500,000	–	1
HK$1,500,001 to HK$2,000,000	1	1
HK$2,000,001 to HK$2,500,000	–	–
	1	2

11. INCOME TAX

An analysis of the Group's income tax is as follows:

	2018 HK$'000	2017 HK$'000
Current – Mainland China		
Charge for the year	2,091	2,682
Deferred – Mainland China (note 28)	(20,350)	(8,555)
	(18,259)	(5,873)

Notes:

(a) No provision for Hong Kong profits tax has been made for the year ended 31 December 2018 as the Group did not generate any assessable profits arising in Hong Kong during the year (2017: Nil). Taxes on profits assessable elsewhere have been calculated at the rates of tax prevailing in the jurisdictions in which the Group operates.

11. INCOME TAX (Continued)

Notes: (Continued)

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

	Hong Kong		Mainland China		Overseas		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Year ended 31 December 2018								
Loss before tax	(55,431)		(136,155)		(35,833)		(227,419)	
Tax credit at the statutory tax rates	(9,146)	16.5	(34,032)	25.0	(6,033)	16.8	(49,211)	21.6
Income not subject to tax	(10)	–	(230)	0.2	–	–	(240)	0.1
Expenses not deductible for tax	9,156	(16.5)	1,310	(1.0)	7,681	(21.4)	18,147	(8.0)
Tax losses utilised from previous periods	–	–	–	–	(2,166)	6.0	(2,166)	1.0
Tax losses not recognised	–	–	14,605	(10.7)	606	(1.7)	15,211	(6.7)
Tax expense/(credit) at the Group's effective tax rates	–	–	(18,347)	13.5	88	(0.2)	(18,259)	8.0
Year ended 31 December 2017								
Loss before tax	(9,367)		(87,586)		(15,227)		(112,180)	
Tax credit at the statutory tax rates	(1,546)	16.5	(21,893)	25.0	(4,898)	32.2	(28,337)	25.3
Income not subject to tax	(758)	8.1	–	–	–	–	(758)	0.7
Expenses not deductible for tax	2,304	(24.6)	341	(0.4)	15	(0.1)	2,660	(2.4)
Tax losses not recognised	–	–	15,679	(17.9)	4,883	(32.1)	20,562	(18.3)
Tax credit at the Group's effective tax rates	–	–	(5,873)	6.7	–	–	(5,873)	5.3

12. LOSS PER SHARE ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY

The calculation of the basic loss per share amount is based on the loss for the year attributable to shareholders of the Company of HK$143,308,000 (2017: HK$60,230,000), and the weighted average number of ordinary shares of 7,010,055,568 (2017:7,010,055,568) in issue during the year.

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

13. PROPERTY, PLANT AND EQUIPMENT

	Notes	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2018								
At 1 January 2018:								
Cost		3,259	1,036	175,620	1,377	1,481	35,755	218,528
Accumulated depreciation and impairment		(2,461)	(1,036)	(147,464)	(984)	(1,091)	(22,918)	(175,954)
Net carrying amount		798	–	28,156	393	390	12,837	42,574
Net carrying amount:								
At 1 January 2018		798	–	28,156	393	390	12,837	42,574
Acquisition of a subsidiary	33	–	–	–	11	1,678	–	1,689
Additions		–	1,133	1,105	36	–	1,412	3,686
Depreciation provided during the year		(146)	(42)	(2,683)	(94)	(335)	–	(3,300)
Impairment provided during the year	17	–	–	(4,047)	–	–	(8,181)	(12,228)
Disposals		–	–	–	(6)	(7)	(791)	(804)
Exchange realignment		(35)	–	(192)	(2)	12	(694)	(911)
At 31 December 2018		617	1,091	22,339	338	1,738	4,583	30,706
At 31 December 2018:								
Cost		3,089	1,133	173,185	1,238	6,147	34,486	219,278
Accumulated depreciation and impairment		(2,472)	(42)	(150,846)	(900)	(4,409)	(29,903)	(188,572)
Net carrying amount		617	1,091	22,339	338	1,738	4,583	30,706

13. PROPERTY, PLANT AND EQUIPMENT (Continued)

	Note	Buildings HK$'000	Leasehold improvements HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2017								
At 1 January 2017:								
Cost		3,030	1,036	169,635	1,736	3,947	33,130	212,514
Accumulated depreciation and impairment		(1,820)	(1,036)	(132,191)	(1,396)	(2,536)	(18,370)	(157,349)
Net carrying amount		1,210	–	37,444	340	1,411	14,760	55,165
Net carrying amount:								
At 1 January 2017		1,210	–	37,444	340	1,411	14,760	55,165
Additions		–	–	582	123	143	162	1,010
Depreciation provided during the year		(484)	–	(2,927)	(104)	(479)	–	(3,994)
Impairment provided during the year	17	–	–	(7,351)	–	–	(3,159)	(10,510)
Disposals		–	–	(242)	(6)	(697)	(49)	(994)
Exchange realignment		72	–	650	40	12	1,123	1,897
At 31 December 2017		798	–	28,156	393	390	12,837	42,574
At 31 December 2017:								
Cost		3,259	1,036	175,620	1,377	1,481	35,755	218,528
Accumulated depreciation and impairment		(2,461)	(1,036)	(147,464)	(984)	(1,091)	(22,918)	(175,954)
Net carrying amount		798	–	28,156	393	390	12,837	42,574

Note: An analysis of the net carrying amounts of the Group's property, plant and equipment by operating segment as at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
Silver mining segment	9,955	18,655
Oil and gas segment	17,774	23,434
Asset financing segment	235	216
LNG segment	1,559	–
Unallocated amounts attributable to corporate and others	1,183	269
Total	30,706	42,574

14. PREPAID LAND PREMIUMS

	2018 HK$'000	2017 HK$'000
Net carrying amount as at 1 January	**889**	888
Amortisation provided during the year	**(65)**	(63)
Exchange realignment	**(45)**	64
Net carrying amount as at 31 December	**779**	889

Note: The Group's prepaid land premiums as at the end of the reporting period are wholly attibutable to the silver mining segment.

15. GOODWILL

	2018 HK$'000	2017 HK$'000
At 1 January:		
Cost and net carrying amount	**–**	–
Net carrying amount:		
At 1 January	**–**	–
Acquisition of a subsidiary (note 33)	**2,136**	–
Impairment provided during the year	**(2,136)**	–
At 31 December	**–**	–
At 31 December:		
Cost	**2,136**	–
Accumulated impairment	**(2,136)**	–
Net carrying amount	**–**	–

The addition of goodwill during the year arose from the acquisition of Shaanxi Wanxi (as defined in note 1), as further detailed in note 33 to the financial statements. In the opinion of the directors, as the future profitability of this subsidiary is uncertain, a full impairment loss against the goodwill amounting to HK$2,136,000 was recognised in profit or loss during the year accordingly.

16. INTANGIBLE ASSETS

	Note	Mineral interests		Exploration and evaluation assets		Patents		Others		Total	
		2018 HK$'000 (note (a))	2017 HK$'000 (note (a))	2018 HK$'000 (note (b))	2017 HK$'000 (note (b))	2018 HK$'000	2017 HK$'000 (note (c))	2018 HK$'000	2017 HK$'000	2018 HK$'000	2017 HK$'000
At 1 January:											
Cost		217,398	202,426	460,901	428,718	–	61,094	45	45	678,344	692,283
Accumulated amortisation and impairment		(211,993)	(195,444)	(238,523)	(195,843)	–	(61,094)	(44)	(33)	(450,560)	(452,414)
Net carrying amount		5,405	6,982	222,378	232,875	–	–	1	12	227,784	239,869
Net carrying amount:											
At 1 January		5,405	6,982	222,378	232,875	–	–	1	12	227,784	239,869
Additions		–	–	308	461	–	–	–	–	308	461
Amortisation provided during the year		(142)	(136)	–	–	–	–	(1)	(10)	(143)	(146)
Impairment provided during the year	17	(269)	(1,849)	(73,685)	(28,535)	–	–	–	–	(73,954)	(30,384)
Exchange realignment		(207)	408	(11,565)	17,577	–	–	–	(1)	(11,772)	17,984
At 31 December		4,787	5,405	137,436	222,378	–	–	–	1	142,223	227,784
At 31 December:											
Cost		206,341	217,398	437,758	460,901	–	–	45	45	644,144	678,344
Accumulated amortisation and impairment		(201,554)	(211,993)	(300,322)	(238,523)	–	–	(45)	(44)	(501,921)	(450,560)
Net carrying amount		4,787	5,405	137,436	222,378	–	–	–	1	142,223	227,784

Notes:

(a) An analysis of the net carrying amounts of mineral interests by operating segment as at the end of the reporting period is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Silver mining segment	(i)	3,834	4,090
Oil and gas segment	(ii)	953	1,315
		4,787	5,405

Notes:

(i) The amount represents a mining permit of a silver mine (the "West Mine") located in Yingshan, Fu'an City, Fujian Province, the PRC. The mining permit is valid from September 2010 up to December 2020 and covers an area of 2.1442 square kilometers with an annual production capacity of 100,000 tons.

(ii) The amount represents capitalised lease payments to various landlords and brokers of oil fields in Texas, the USA under mineral interest leasing arrangements for the production of oil and gas products. Having considered the severe oil and gas market condition, these capitalised lease payments were impaired during the year with an impairment loss of HK$269,000 (2017: HK$306,000) charged to profit or loss for the year.

16. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(b) An analysis of the net carrying amounts of exploration and evaluation assets by operating segment as at the end of the reporting period is as follows:

	Notes	2018 HK$'000	2017 HK$'000
Silver mining segment	(i)	136,726	221,609
Oil and gas segment	(ii)	710	769
		137,436	222,378

Notes:

(i) The amount represents an exploration permit of a silver mine (the "East Mine") covering an area of 4.97 square kilometers in Tuorong County, Yingshan, Fujian Province, the PRC. The exploration permit was valid from October 2012 to April 2018 (as extended). At the date of approval of these financial statements, the Group was applying for a further extension of the expiry date of the exploration permit and, in the opinion of the directors, they are not aware of any legal impediments in obtaining the relevant approval for the application, based on previous experiences of similar applications in the past.

(ii) The amount represented capitalised lease payments to various landlords and brokers of oil fields in Texas, the USA under mineral interest leasing arrangements for the exploration of oil and gas. Having considered the severe oil and gas market condition, the Group has suspended its plan to invest in new oil and gas exploration activities and accordingly, these capitalised lease payments were impaired during the year with a total impairment loss of HK$61,000 (2017: HK$109,000) charged to profit or loss for the year.

(c) Purchased patents of the Group as at 1 January 2017 were patents of a heavy oil extraction technology (the "HydroFlame Technology") that burns a fuel directly inside a rotating stream of water heavy oil recovery application. The HydroFlame Technology had not yet been commercialised. The patents were acquired in 2013 and were fully impaired in prior years as, in the opinion of the directors, there was uncertainty in the successful commercialisation of the technology in light of a further delay in its commercialisation and the then severe oil and gas market condition. During the year ended 31 December 2017, the remaining assets and liabilities relating to the HydroFlame Technology were written off by the Group. At 31 December 2018 and 2017, the Group still owns the patents relating to the HydroFlame Technology.

17. IMPAIRMENT TESTING OF NON-CURRENT ASSETS

The Group's silver mining segment and oil and gas segment have been loss-making for some time which, amongst others, constitutes an indication of impairment of non-current assets attributable to these segments, including property, plant and equipment, prepaid land premiums and intangible assets. Accordingly, the Group carried out an impairment testing of these assets as at 31 December 2018 in accordance with HKAS 36 *Impairment of Assets*, which is summarised as follows:

(a) Silver Mining Assets

In view of the indications of impairment arising from the suspension of the silver mine production during the year and decrease in forecast silver prices, the directors of the Company had estimated the recoverable amounts (which is the fair value less costs of disposal ("FV")) of the non-current assets of the silver mining segment (the "Silver Mining Assets") for the purpose of impairment testing.

In this connection, the Company had engaged APAC Assets Valuation and Consulting Limited, an independent professional valuer, to assess the FV of the cash-generating units ("CGUs") of the silver mining segment and management had derived the FV of the Silver Mining Assets from the FV of the relevant CGUs. In assessing the FV of each of the CGUs, the future pre-tax cash flows of the silver mining segment which cover the periods to the production end date of the respective mines are discounted to the related present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such business. Parameters used in the projected cash flows included, but were not limited to, selling prices and sales volumes of silver, production cost and other expenses, capital expenditure, the production plan and the discount rate, which reflected the current conditions of the market and estimated trend in the future. The fair value measurement used significant unobservable inputs (level 3 of the fair value hierarchy).

Below is a summary of the valuation techniques used and the key inputs used in assessing the FV of the CGUs in silver mining segment:

	Valuation techniques	**Significant unobservable inputs**	**Range or weighted average**	
			2018	2017
Property, plant and equipment and intangible assets	Discounted cash flows method	(i) Silver selling price at 31 December used as the projection basis for future years (per gram)	**RMB3.55**	RMB3.75
		(ii) Growth rates applied to the silver selling price in valuation	**For 2020, 2021 and 2022 are 3.0%, 3.1% and 3.0%**	For 2019, 2020 and 2021 are 1.9%, 3.4% and 3.0%
		(iii) Expected inflation rate in PRC (per annum)	**3%**	3%
		(iv) Forecast gross margin# (per gram)	**RMB1.2**	RMB1.3
		(v) Pre-tax discount rate*	**10% to 14%**	11% to 16%

\# It represented sales net of tax and levies minus production cost and before depreciation and amortisation, being the weighted average gross margin for both the East and West mines.

* The pre-tax discount rate was evaluated under the Capital Assets Pricing Model (the "CAPM"); the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of CGUs was expected to be affected by firm specific risk factors that are independent of the general market. The rates were arrived at the weighted average of the cost of equity and the cost of debt before tax of the respective CGUs.

17. IMPAIRMENT TESTING OF NON-CURRENT ASSETS (Continued)

(a) Silver Mining Assets (Continued)

The key assumptions which were used in assessing the FV of the CGUs of the silver mining segment included but were not limited to the following:

(i) In respect of the revenue from the silver mining segment, the budgeted revenue is based on (a) the total reserve ore grade and volume of ore metal as assessed and estimated by management with reference to an independent technical report prepared based on the JORC Code standard; (b) the total projected annual productions as assessed and estimated by management; and (c) the projected market prices of silver made reference to the silver price quoted from a silver exchange.

(ii) The budgeted operating cost for the first forecast year of production is based on the information included in the technical report prepared under the JORC Code standard.

(iii) Production for the West Mine is forecasted to be ending in 2020.

(iv) Production for the East Mine is forecasted to be commenced in 2021 and ending in 2029 (2017: commenced in 2021 and ending in 2029).

Based on the FV assessment of the CGUs of the silver mining segment which is determined to be HK$152,506,000 (2017: HK$244,442,000), the directors of the Company are of the opinion that an impairment loss of the Silver Mining Assets totalling HK$81,805,000 (2017: HK$34,671,000) was resulted during the year, in which HK$8,181,000 (2017: HK$4,701,000) was allocated to property, plant and equipment and HK$73,624,000 (2017: HK$29,970,000) was allocated to intangible assets of the Group's silver mining segment, based on their relative carrying amounts amongst the Silver Mining Assets. The above impairment provisions aggregating HK$81,805,000 (2017: HK$34,671,000) were recognised as "Other expenses, net" in profit or loss during the year.

17. IMPAIRMENT TESTING OF NON-CURRENT ASSETS (Continued)

(b) Oil and Gas Assets

In view of the indications of impairment arising from the decrease in forecast gas price and the current level of production in oil and gas in recent years, the directors of the Company had estimated the recoverable amounts (which is the value in use ("VIU")) of the non-current assets of the Group's oil and gas segment (the "Oil and Gas Assets") for impairment testing purposes.

In this connection, the Company had assessed the VIU of the CGUs of the oil and gas segment and derived the VIU of the Oil and Gas Assets from the VIU of the relevant CGUs. In assessing the VIU of each of the CGUs, the future cash flows of the relevant oil and gas segment which cover the periods to utilise the remaining reserves of the developed wells of oil and gas fields are discounted to the related present values using a pre-tax discount rate that reflects current assessments of the time value of money and the risks specific to such businesses. Parameters used in the projected cash flows included, but were not limited to, selling prices and sales volumes of oil and gas, production cost and other expenses, capital expenditure, the production plan and the discount rate, which reflected the current conditions of the market and estimated trend in the future. The fair value measurement used significant unobservable inputs (level 3 of the fair value hierarchy).

Below is a summary of the valuation techniques used and the key inputs used in assessing the VIU of the CGUs in Oil and Gas segment:

	Valuation techniques	Significant unobservable inputs		Range or weighted average 2018	2017
Property, plant and equipment and intangible assets	Discounted cash flows method	(i)	Forecast selling price for the first year subsequent to the year end	Oil: US$50.1/BBL Gas: US$2.95/MCF Natural gas liquid: US$23.62/BBL	Oil: US$54.21/BBL Gas: US$2.87/MCF Natural gas liquid: US$22.48/BBL
		(ii)	Growth rate applied to the oil and gas selling price in the cash flow projections after 2020	1% to 3%	2%
		(iii)	Expected inflation rate in USA (per annum)	2%	2%
		(iv)	Forecast gross margin# (per annum)	Oil: US$25.22 to US$26.23/BBL Gas: US$1.3 to US$1.36/MCF Natural gas liquid: US$11.89 to US$12.37/BBL	Oil: US$30.69 to US$29.77/BBL Gas: US$1.43 to US$1.38/MCF Natural gas liquid: US$12.73 to US$12.34/BBL
		(v)	Pre-tax discount rate*	12%	12% to 13%

\# It represented sales net of tax and levies minus production cost and before depreciation and amortisation.

* The pre-tax discount rate was evaluated under the CAPM; the appropriate expected rate of return was the sum of the risk-free return and the equity risk premium required by investors to compensate for the market risk assumed. In addition, the expected rate of return of CGUs was expected to be affected by firm specific risk factors that are independent of the general market. The rates were arrived at the weighted average of the cost of equity and the cost of debt before tax of the respective CGUs.

17. IMPAIRMENT TESTING OF NON-CURRENT ASSETS (Continued)

(b) Oil and Gas Assets (Continued)

The key assumptions which were used in assessing the VIU of the CGUs of the oil and gas segment included but were not limited to the following:

(i) In respect of the revenue from the Oil and Gas Assets, the budgeted revenue is based on (a) the total projected annual productions as assessed and estimated by management; and (b) the projected market prices of oil, gas and natural gas liquid from 2019 to 2037 with reference to certain published forecast prices considered appropriate by management.

(ii) The budgeted operating expense for the first forecast year of production is projected based on the historical expenses and output volume as assessed by management.

(iii) The cost of development of those undeveloped oil and gas wells with lease periods ending on or before 31 December 2019 (2017: On or before 31 December 2018) will outweigh the benefits and returns of such undeveloped oil and gas wells. On this basis, the directors of the Company have made an impairment loss on intangible assets of HK$61,000 (2017: HK$109,000) to fully write off the relevant capitalised lease payments which will expire in 2019 (2017: in 2018).

Based on the VIU assessment of the CGUs of the oil and gas segment which was determined to be HK$19,436,000 (2017: HK$25,518,000), the directors of the Company are of the opinion that an impairment loss of the Oil and Gas Assets totalling HK$4,377,000 (2017: HK$6,223,000) was resulted during the year, in which HK$4,047,000 (2017: HK$5,809,000) was allocated to property, plant and equipment, and HK$330,000 (2017: HK$414,000) was allocated to intangible assets. The above impairment provisions aggregating HK$4,377,000 (2017: HK$6,223,000) were recognised as "Other expenses, net" in profit or loss during the year.

18. INVESTMENTS IN ASSOCIATES

	Note	2018 HK$'000	2017 HK$'000
Share of net assets		48,140	265
Goodwill on acquisition	(c)	7,942	4,128
		56,082	4,393
Provision of impairment	(c)	(4,128)	(4,128)
		51,954	265

18. INVESTMENTS IN ASSOCIATES (Continued)

Notes:

(a) Particulars of the Group's associates are as follows:

Company name	Particulars of issued share held	Place of incorporation/ registration and business	Percentage of ownership interest attributable to the Group	Principal activities
TI Systems Limited	Ordinary share	Hong Kong	41.7%	Development of an e-payment system
海南深耕海洋發展有限公司 ("Hainan Shengang")	Ordinary share	PRC/Mainland China	19.5%*	Development of deep sea fish farming
One Asia Securities Company Limited	Ordinary share	Japan	18.5%*	Securities trading

* Notwithstanding that the Group has less than 20% equity interest in each of these entities, these entities are accounted for as associates of the Group because the Group has appointed representatives as directors of these entities so that it has been able to exercise significant influence over them.

(b) Associates' summarised financial information disclosure

Hainan Shengang was considered a material associate of the Group and was accounted for using the equity method in the consolidated financial statements.

The following table illustrates the summarised financial information in respect of Hainan Shengang, adjusted for any differences in accounting policies and reconciled to the carrying amount in the consolidated financial statements:

	2018 HK$'000	2017 HK$'000
Current assets	227,611	–
Current liabilities	(46)	–
Net assets	227,565	–
Reconciliation to the Group's interest in the associate:		
Proportion of the Group's ownership	19.5%	–
Carrying amount of the investment	44,375	–
Share of loss and total comprehensive loss for the year	(9)	–

18. INVESTMENTS IN ASSOCIATES (Continued)

Notes: (Continued)

(b) Associates' summarised financial information disclosure (Continued)

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

	2018 HK$'000	2017 HK$'000
Share of loss for the year of the associates	**(377)**	(1,561)
Share of total comprehensive income/(loss) for the year of an associate	**94**	(46)
Share of net assets of the associates	**3,765**	265
Goodwill on acquisition recognised by the Group	**3,814**	4,128

(c) The movements of the amount of the goodwill included in investments in associates during the year are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January:		
Cost	**4,128**	–
Accumulated impairment	**(4,128)**	–
Net carrying amount	**–**	–
Net carrying amount:		
At 1 January	**–**	–
Acquisition of an associate	**3,814**	4,128
Impairment provided during the year	**–**	(4,128)
At 31 December	**3,814**	–
At 31 December:		
Cost	**7,942**	4,128
Accumulated impairment	**(4,128)**	(4,128)
Net carrying amount	**3,814**	–

In 2018, the addition of goodwill arose from the acquisition of One Asia Securities Company Limited at a cash consideration of JPY110 million (approximately HK$7.6 million). Up to the date of approval of these financial statements, the Group had not completed the fair value measurement of the identifiable net assets of the associate acquired and the initial accounting for acquisition was incomplete. The goodwill on acquisition recognised by the Group represented the provisional amount estimated by the directors of the Company.

In 2017, the addition of goodwill arose from the acquisition of TI Systems Limited at a cash consideration of HK$6 million. In the opinion of the directors, as the future commercialisation of the e-payment system of TI Systems Limited is uncertain, accordingly, a full impairment loss against the goodwill amounting to HK$4,128,000 was recognised in profit or loss in the prior year.

19. EQUITY INVESTMENTS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME/AVAILABLE-FOR-SALE INVESTMENTS

	Notes	2018 HK$'000	2017 HK$'000
Equity investments at fair value through other comprehensive income			
Listed equity investments, at fair value:			
Huayi Tencent Entertainment Company Limited	(a)	1,952	–
Unlisted equity investment, at fair value:			
北京青瑞聚信投資基金管理有限公司	(b)	–	–
Available-for-sale investments			
Listed equity investment, at fair value	(a)	–	7,181
Unlisted equity investment, at cost		–	4,322
Impairment	(b)	–	(4,322)
		1,952	7,181

Notes:

(a) The listed equity investments as at 31 December 2017 were irrevocably designated at fair value through other comprehensive income upon adoption of HKFRS 9 on 1 January 2018 as the Group considers these investments to be strategic in nature. During the year ended 31 December 2018, the gross loss in respect of the Group's listed equity investments recognised as other comprehensive loss amounted to HK$1,620,000 (2017: HK$1,035,000). In the prior year, owing to the significant and prolonged decline in the market value of the listed equity investment during the year ended 31 December 2017, the directors considered that such a decline indicated that the listed equity investments have been impaired and impairment loss of HK$1,249,000 was recognised directly in profit or loss.

(b) In the prior year, as at 31 December 2017, the Group's unlisted equity investment was stated at cost less any impairment losses because the range of reasonable fair value estimates is so significant that the directors are of the opinion that its fair value cannot be measured reliably. A full provision for impairment was made against the Group's unlisted equity investment in prior years because the investee had financial difficulties and hence, in the opinion of the directors, the investment cost may not be recovered.

This unlisted equity investment was irrevocably designated at fair value through other comprehensive income upon adoption of HKFRS 9 on 1 January 2018 as the Group considers this investment to be strategic in nature. In the opinion of the directors, the fair value of this unlisted equity investment was close to zero as at 1 January 2018 and 31 December 2018.

20. INVENTORIES

	2018 HK$'000	2017 HK$'000
Raw materials and consumables	**154**	266
Finished goods	**–**	937
	154	1,203

21. LEASE, FACTORING AND TRADE RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Gross lease receivables	(a)	**41,307**	34,226
Less: Unearned interest income		**(1,871)**	(1,360)
Net lease receivables	(a)	**39,436**	32,866
Factoring receivables	(b)	**152,454**	160,302
Management fee receivables of asset financing services	(c)	**1,031**	1,517
Trade receivables	(d)	**730**	758
Impairment	(e)	**(263)**	–
Total lease, factoring and trade receivables		**193,388**	195,443
Portion classified as current assets		**(177,320)**	(20,826)
Non-current portion		**16,068**	174,617

21. LEASE, FACTORING AND TRADE RECEIVABLES (Continued)

Notes:

(a) The balance as at 31 December 2018 represented two (2017: one) lease receivables with an aggregate principal amount of RMB58,000,000 (2017: RMB38,000,000) provided by the Group in its ordinary course of business to the lessees in connection with finance lease arrangements of certain plant and equipment. The lease receivables bear interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin and are repayable in 2 to 3 years. During the year, interest income of HK$1,803,000 (2017: HK$1,772,000) was recognised in profit or loss in respect of the lease receivables.

The lease receivables as at 31 December 2018 and 2017 are not past due based on the due date.

At 31 December 2018, the Group's total future minimum lease receivables under the lease receivables and their present values were as follows:

	2018		2017	
	Gross investment in the finance leases HK$'000	**Present value of minimum lease receivables HK$'000**	Gross investment in the finance leases HK$'000	Present value of minimum lease receivables HK$'000
Amount receivable:				
Within one year	**24,583**	**23,368**	17,113	16,029
In the second year	**8,362**	**7,807**	17,113	16,837
In the third to fifth years, inclusive	**8,362**	**8,261**	–	–
Total minimum lease receivables	**41,307**	**39,436**	34,226	32,866
Future interest income	**(1,871)**		(1,360)	
Total net lease receivables	**39,436**		32,866	
Portion classified as current assets	**(23,368)**		(16,029)	
Non-current portion	**16,068**		16,837	

(b) The Group's factoring receivables arose from two (2017: two) factoring services provided by the Group in prior years in the ordinary course of business of the Group. These factoring receivables bear interest at a floating rate of the three-year lending rate promulgated by the People's Bank of China plus 20% margin, due in 2019 and each is secured by a receivable owed by a debtor to the customer. During the year, interest income of HK$9,101,000 (2017: HK$8,547,000) in total was recognised in profit or loss in respect of these factoring receivables.

The factoring receivables as at 31 December 2018 and 2017 are neither past due nor impaired based on the due date.

(c) Management fee receivables arose from the provision of finance leasing and factoring services mentioned in notes (a) and (b) above. The management fee is charged at 1% per annum of the loan principal and management fee income of HK$1,899,000 (2017: HK$1,958,000) in total was recognised in profit or loss during the year.

An ageing analysis of the management fee receivables as at the end of the reporting period, based on the invoice date and net of provision, is as follows:

	2018 HK$'000	2017 HK$'000
Within one month	**1,031**	1,023
Over three months	**–**	494
	1,031	1,517

21. LEASE, FACTORING AND TRADE RECEIVABLES (Continued)

Notes: (Continued)

(c) (Continued)

The management fee receivables were neither past due nor impaired based on due date.

(d) The Group's trading terms with its customers from the silver, oil and gas, and LNG segments are mainly on credit, except for new customers, where payment in advance is normally required. The credit period is generally one month, extending up to six months for major customers. Each customer has a maximum credit limit. The Group seeks to maintain strict control over its outstanding receivables and overdue balances are reviewed regularly by the management.

The trade receivables as at the end of the reporting period, based on the invoice date and net of provisions, are all aged within one month as at 31 December 2018 and 2017. These receivables were neither past due nor impaired and related to customers with no recent history of default.

(e) The movement in the loss allowance for impairment of lease receivables is as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	–	–
Impairment loss recognised in profit or loss during the year (note 8)	263	–
At 31 December	263	–

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. At 31 December 2018, the probability of default applied ranged from 0.32% to 3.75% and the loss given default rate was estimated to be ranged from 26.91% to 61.66%.

22. LOAN RECEIVABLES

	Notes	2018 HK$'000	2017 HK$'000
Gross amount	(a)	68,080	32,344
Less: Impairment	(b)	(68,080)	(32,344)
		–	–

22. LOAN RECEIVABLES (Continued)

Notes:

(a) The balance as at 31 December 2017 mainly included a loan receivable of HK$30,000,000 advanced to an independent third party, which was unsecured, bore interest at the rate of 10% per annum and was overdue since 2012.

In addition to the above, the balance as at 31 December 2018 also included a loan receivable of Japanese Yen ("JPY") 500,000,000 advanced to an independent third party for potential acquisition of an entity, which is secured by shares of the target company and certain receivables, bears interest at the rate of 8% per annum and has been overdue since May 2018.

The Group does not hold any collateral or other credit enhancements over its loan receivable balances.

(b) The movements in the provision for impairment of loan receivables are as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	**32,344**	32,326
Impairment loss recognised in profit or loss during the year (note 8)	**35,731**	–
Exchange realignment	**5**	18
At 31 December	**68,080**	32,344

An impairment loss of HK$35,731,000 was recognised during the year in respect of a debtor as there was no reasonable expectation for recovering the contractual cash flows.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS

	Notes	**2018 HK$'000**	2017 HK$'000
Receivable on commodity trading	(a)	**37,275**	–
Prepayments		**6,833**	6,167
Deposit for acquisition of an entity	(b)	**96,734**	96,007
Other deposits		**1,221**	515
Other receivables		**3,497**	3,706
Impairment	(c)	**(861)**	–
Total prepayments, deposits and other receivables		**144,699**	106,395
Portion classified as current assets		**(46,836)**	(7,651)
Non-current portion		**97,863**	98,744

Notes:

(a) The receivable on commodity trading as at 31 December 2018 arose from selling copper to an independent third party. The amount is unsecured, interest-free and repayable within 90 days after the relevant transaction.

23. PREPAYMENTS, OTHER RECEIVABLES AND OTHER ASSETS (Continued)

Notes: (Continued)

(b) The amount as at 31 December 2018 and 2017 represented a deposit paid to an independent third party for a potential acquisition of an entity. Such deposit will be refunded, together with an interest of 3.0% per annum if the acquisition is not proceeded.

(c) The movement in the loss allowance for impairment of other receivables is as follows:

	2018 HK$'000	2017 HK$'000
At 1 January	**–**	–
Impairment loss recognised in profit or loss during the year (note 8)	**861**	–
At 31 December	**861**	–

Impairment under HKFRS 9 for the year ended 31 December 2018

An impairment analysis is performed at each reporting date using the probability of default approach to measure expected credit losses. The probabilities of default rates are estimated based on comparable companies with published credit ratings. The calculation reflects the probability-weighted outcome, the time value of money and reasonable and supportable information that is available at the reporting date about past events, current conditions and forward-looking credit risk information. At 31 December 2018, the probability of default applied ranged from 0% to 1.63% and the loss given default rate was estimated to be ranged from 0% to 61.66%.

24. RESTRICTED CASH AND CASH AND CASH EQUIVALENTS

	2018 HK$'000	2017 HK$'000
Cash and bank balances	**188,795**	369,328
Less: Restricted cash (note (c))	**(360)**	(379)
Cash and cash equivalents	**188,435**	368,949

Notes:

(a) At 31 December 2018, the cash and bank balances of the Group denominated in RMB and were kept or deposited in banks in Mainland China amounted to HK$106,773,000 (2017: HK$10,470,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group is permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

(c) The restricted cash is pledged for the work safety of mining workers required by the PRC local government and cannot be used for daily operations.

25. TRADE PAYABLES

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

	2018 **HK$'000**	2017 HK$'000
Less than six months	**220**	893
Six months to one year	**–**	–
Over one year	**305**	468
	525	1,361

The trade payables are non-interest-bearing and are normally settled on a term of 60 days.

26. OTHER PAYABLES AND ACCRUALS

	Notes	**2018** **HK$'000**	2017 HK$'000
Accruals		**3,202**	12,275
Contract liability	(a)	**348**	–
Value-added tax and other tax payables		**25**	197
Other payables		**9,237**	7,680
Due to related companies	(b)	**10,333**	–
		23,145	20,152
Portion classified as current liabilities		**(22,479)**	(19,572)
Non-current portion		**666**	580

Notes:

(a) The contract liability as at 31 December 2018 represented a customer's deposit received in advance from a customer for the sale of LNG.

(b) Amounts due to related companies are unsecured, interest-free and have no fixed terms of repayment.

27. OTHER LOANS

The other loans of the Group as at 31 December 2018 comprised the following:

(i) a loan from a former shareholder of a subsidiary of the Group of RMB20,000,000 (approximately HK$22,761,000 (2017: HK$24,013,000)) which was unsecured, interest-free, repayable on 1 January 2016, and subject to an overdue penalty of 0.5% per day on the loan principal;

(ii) a loan of RMB9,500,000 (approximately HK$10,811,000 (2017: HK$11,406,000)) which was unsecured, interest-free, repayable in September 2016, and subject to an overdue penalty of 0.05% per day on the loan principal;

(iii) a loan of RMB5,500,000 (approximately HK$6,259,000 (2017: HK$6,603,000)) which was unsecured, bore interest at 15% per annum, was repayable on 1 January 2016 and subject to an overdue penalty of 1% on the overdue balance; and

(iv) a loan of RMB5,000,000 (approximately HK$5,690,000 (2017: HK$6,003,000)) which was unsecured, bore interest at 15% per annum, was repayable in April 2014, and subject to an overdue penalty of 1% on the overdue balance.

At 31 December 2018, all the above four loans (2017: four loans) were borrowed by a subsidiary of the Group and have been overdue with accumulated interest expenses and overdue penalty charges of HK$174,343,000 (2017: HK$129,267,000) recognised.

In 2017, several lenders have filed legal claims against the subsidiary of the Group for recovery of the above-mentioned overdue loans, together with the accrued interests and overdue penalties. The Group failed to defend in two cases. In the opinion of the directors, adequate accrued interests and penalties have been provided by the Group.

28. DEFERRED TAX LIABILITIES

The movements in deferred tax liabilities arising from fair value adjustments on the acquisition of subsidiaries, less relevant accumulated impairment, depreciation and amortisation, during the year are as follows:

	2018 **HK$'000**	2017 HK$'000
At 1 January	**23,903**	30,171
Deferred tax credited to profit or loss during the year (note 11)	**(20,350)**	(8,555)
Exchange realignment	**(1,247)**	2,287
At 31 December	**2,306**	23,903

28. DEFERRED TAX LIABILITIES (Continued)

Notes:

(a) At 31 December 2018, unutilised tax losses and deductible temporary differences of approximately HK$605,451,000 (2017: HK$621,788,000) and HK$710,000 (2017:HK$934,000), respectively, have not been recognised as deferred tax assets, as they have arisen in the Company and certain subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which these tax losses and deductible temporary differences can be utilised.

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

At 31 December 2018, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings that are subject to withholding taxes of the Group's subsidiaries established in Mainland China (2017: Nil). In the opinion of the directors of the Company, it is not probable that these subsidiaries will distribute such earnings in the foreseeable future. The aggregate amount of temporary differences associated with investments in subsidiaries in Mainland China for which deferred tax liabilities have not been recognised totalled approximately HK$17,129,000 (2017: HK$11,382,000) as at 31 December 2018.

There are no income tax consequences attaching to the payment of dividends by the Company to its shareholders.

29. SHARE CAPITAL

Shares

	2018 **HK$'000**	2017 HK$'000
Issued and fully paid:		
7,010,055,568 ordinary shares	**2,703,301**	2,703,301

Share options

Details of the Company's share option scheme are included in note 30 to the financial statements.

30. SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme") which was effective from 30 May 2012 and remains valid for a period of 10 years from 30 May 2012 for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

The maximum number of ordinary shares of the Company issuable under share options to be granted under the Scheme is 701,005,556, representing 10% of the number of ordinary shares of the Company in issue as at 31 December 2018. The maximum number of shares issuable under share options to each eligible participant in the Scheme within any 12-month period is limited to 1% of the ordinary shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

The offer of a grant of share options may be accepted within 21 days from the date of the offer, upon payment of a nominal consideration of HK$1 in total by the grantee. Share options granted may be exercised under the Scheme at any time during a period not exceeding five years after the date when the options are granted and expiring on the last date of this period.

The exercise price of share options is determined by the directors, but shall not be less than the highest of (i) the Stock Exchange closing price of the Company's shares on the date of offer of the share options; and (ii) the average of the Stock Exchange closing prices of the Company's shares for the five trading days immediately preceding the date of the offer of the share options. Share options do not confer rights on the holders to dividends or to vote at shareholders' meetings.

No share option was granted under the Scheme during the years ended 31 December 2018 and 2017, and no share options were outstanding as at 31 December 2018 and 2017.

31. RESERVES

The amounts of the Group's reserves and the movements therein for the current and prior years are presented in the consolidated statement of changes in equity.

32. PARTLY-OWNED SUBSIDIARIES WITH MATERIAL NON-CONTROLLING INTERESTS

For the years ended 31 December 2018 and 2017, Million Grow and its subsidiaries (collectively, the "Million Grow Group") were considered subsidiaries that had material non-controlling interests and details of which are set out below:

	2018	2017
Percentage of equity interest held by non-controlling interests	50%	50%

	2018 HK$'000	2017 HK$'000
Loss for the year allocated to non-controlling interests	(65,649)	(46,063)
Accumulated balances of non-controlling interests at the reporting date	(38,809)	26,470

The following tables illustrate the summarised financial information of the Million Grow Group as at the end of and during the reporting period:

	2018 HK$'000	2017 HK$'000
Revenue	2,028	–
Other income and gains	3	163
Total expenses	(122,673)	(89,639)
Loss for the year	(120,642)	(89,476)
Total comprehensive loss for the year	(119,985)	(83,257)
Current assets	2,496	3,002
Non-current assets	153,232	247,288
Current liabilities	(234,673)	(192,644)
Non-current liabilities	(2,306)	(23,903)
Net cash flows used in operating activities	(3,439)	(5,970)
Net cash flows used in investing activities	(1,433)	(314)
Net cash flows from financing activities	2,291	6,052
Net increase/(decrease) in cash and cash equivalents	(2,581)	(232)

* The amounts disclosed above are before any inter-company eliminations.

33. BUSINESS COMBINATION

On 8 November 2018, the Group acquired a 51% interest in Shaanxi Wanxi (as defined in note 1) from an independent third party at a cash consideration of RMB3 million (equivalent to HK$3.37 million), which was settled on 16 October 2018. Shaanxi Wanxi is principally engaged in LNG trading and logistic service in the PRC.

The fair values of the identifiable assets and liabilities of Shaanxi Wanxi acquired as at the date of acquisition were as follows:

	Notes	Fair value recognised on acquisition 2018 HK$'000
Net assets acquired:		
Property, plant and equipment	13	1,689
Prepayments, deposits and other receivables		660
Cash and cash equivalents		73
Total identifiable net assets at fair value		2,422
Non-controlling interests		(1,187)
		1,235
Goodwill on acquisition	15	2,136
Satisfied by cash		3,371

An analysis of the cash flows in respect of the acquisition of the subsidiary is as follows:

	2018 HK$'000
Cash and cash equivalents acquired	73
Cash consideration	(3,371)
Net outflow of cash and cash equivalents in respect of the acquisition of the subsidiary	(3,298)

Since the acquisition, Shaanxi Wanxi contributed HK$3,563,000 to the Group's revenue and HK$2,576,000 to the consolidated loss for the year ended 31 December 2018.

Had the above business combination taken place at the beginning of the year, the Group's revenue and loss for the year would have been HK$25,851,000 and HK$212,942,000, respectively.

34. DISPOSAL OF SUBSIDIARIES

	2018 HK$'000
Net assets disposed of:	
Trade receivables	511
Prepayments, deposits and other receivables	3,342
Cash and cash equivalents	415
Other payables and accruals	(3,807)
Income tax payables	(34)
	427
Exchange fluctuation reserve realised	25
	452
Loss on disposal of subsidiaries (note 8)	(452)
	–
Satisfied by cash	–

An analysis of the net outflow of cash and cash equivalents in respect of the disposal of subsidiaries are as follows:

	2018 HK$'000
Cash consideration	–
Cash and cash equivalents disposed of	(415)
Net outflow of cash and cash equivalents in respect of the disposal of subsidiaries	(415)

Note: During the year ended 31 December 2018, pursuant to three share purchase agreements entered into with an independent third party, the Group disposed of the entire interests of three wholly-owned subsidiaries, namely 天津金悦金屬材料有限責任公司, 嘉善聚鑫金屬材料有限公司 and 上海鑾鈺能源有限公司, to the independent third party at nil consideration.

35. NOTE TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

Changes in liabilities arising from financing activities

	Other loans	
	2018	2017
	HK$'000	HK$'000
At 1 January	**177,292**	108,692
Finance costs (note 7)	**54,002**	57,982
Exchange realignment	**(11,430)**	10,618
At 31 December	**219,864**	177,292

36. COMMITMENTS

(a) Operating Lease Commitments

The Group leases certain of its office premises and a director's quarter under operating lease arrangements. Leases are negotiated for terms ranging from one to three years.

At 31 December 2018, the Group had total future minimum lease payments under non-cancellable operating leases falling due as follows:

	2018	2017
	HK$'000	HK$'000
Within one year	**1,935**	2,354
In the second to fifth years, inclusive	**88**	601
	2,023	2,955

36. COMMITMENTS (Continued)

(b) Capital Commitments

At 31 December 2018, the Group had a capital commitment of HK$1,707,000 (2017: HK$1,801,000) in respect of the acquisition of a 30% equity interest in an entity established in the PRC (the"Entity"), which is contracted, but not provided for. Pursuant to the relevant disposal agreements in connection with the disposal of a subsidiary of the Group to an independent third party (the "Purchaser") which was completed on 26 June 2015:

(i) the disposed subsidiary and its subsidiaries (collectively, the "Disposed Group") would undergo an equity interest restructuring (the "Equity Interest Restructuring") pursuant to which the Purchaser and another third party (the "Third Party") would complete the transfer of the 30% equity interest in the Entity to the Group at a consideration of RMB1.5 million and charge the coal mining right owned by the Entity to the Group within 10 years after the completion of the disposal agreements (the "Deadline");

(ii) after the Equity Interest Restructuring, the Third Party would repurchase the Group's 30% equity interest in the Entity at a consideration of HK$115 million (RMB100 million) by the Deadline; and

(iii) if the Purchaser and the Third Party cannot complete the Equity Interest Restructuring and the charge of the Entity's coal mining rights by the Deadline, the Purchaser or the Third Party would pay a sum of RMB100 million to the Company within 2 business days after the Deadline.

37. RELATED PARTY DISCLOSURES

(a) Other than the balances and transactions detailed elsewhere in these financial statements, the Group did not have other significant related party balances as at the end of the reporting period and related party transactions during the reporting period.

(b) Compensation of key management personnel of the Group

	2018 **HK$'000**	2017 HK$'000
Short-term employee benefits	**8,283**	8,434
Post-employment benefits	**–**	18
Total compensation paid to key management personnel	**8,283**	8,452

Further details of directors' emoluments are included in note 9 to the financial statements.

38. FINANCIAL INSTRUMENTS BY CATEGORY

Other than equity investments being designated as financial assets at fair value through other comprehensive income (2017: available-for-sale financial assets), all other financial assets and liabilities of the Group as at 31 December 2018 are classified as financial assets and liabilities at amortised cost, respectively (2017: loans and receivables, and financial liabilities at amortised cost, respectively).

39. FAIR VALUE OF FINANCIAL INSTRUMENTS

The fair values of the financial assets and liabilities are included at the amount at which the instrument could be exchanged in a current transaction between willing parties, other than in a forced or liquidation sale. The following methods and assumptions were used to estimate the fair values:

(a) The fair values of financial assets and liabilities which are due to be received or settled within one year approximate to their carrying amounts largely due to the short term maturities of these instruments.

(b) The fair value of the listed equity investment is based on its quoted market price.

(c) The fair values of the non-current portion of lease and factoring receivables have been calculated by discounting the expected future cash flows using a rate currently available for instruments with similar terms, credit risk and remaining maturities.

Since the carrying amounts of the Group's financial instruments approximate to their fair values, no separate disclosure of the fair values of the Group's financial instruments is made in the financial statements.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's principal financial instruments comprise bank balances, other receivables and payables, and interest-bearing borrowings. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables and trade payables, which arise directly from its operations.

The Group also enters into derivative transactions by trading of commodities.

The main risks arising from the Group's financial instruments are (a) interest rate risk, (b) foreign currency risk, (c) credit risk and (d) liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(a) Interest rate risk

The Group has significant lease and factoring receivables which bear interest at floating rates and hence the Group is exposed to cash flow interest rate risk. For other interest-free loans and receivables, the Group is exposed to fair value interest rate risk. During the year, the Group has not hedged its cash flow and fair value interest rate risk.

Sensitivity analysis

The sensitivity analysis of cash flow interest rate risk below has been determined assuming that the change in interest rates had occurred at the end of the respective reporting periods and had been applied to the exposure to interest rate risk for non-derivative financial instruments in existence at these dates. The 100 basis point decrease or increase represents management's assessment of a reasonably possible change in interest rates over the period until the end of the next reporting period.

If interest rates had been 100 basis points higher (lower) and all other variables were held constant, the Group's post-tax loss for the year ended 31 December 2018 would have been decreased (increased) by approximately HK$1,439,000 (2017: HK$1,449,000).

(b) Foreign currency risk

The Group's businesses are mainly carried out by subsidiaries and associates located in Mainland China, Singapore and Japan, and majority of its transactions are conducted in RMB, Singapore dollar ("SG$") and JPY. The Group also has transactional currency exposures in SG$ and RMB arising from other income by operating units in currencies other than the units' functional currencies. Approximately 14% (2017: 9%) of the Group's other income was denominated in currencies other than the functional currencies.

The net assets of the Group's investments in subsidiaries and associates established in Mainland China, Singapore and Japan are exposed to foreign currency translational risk. The Group has not hedged its transactional and translational currency risk.

The following table demonstrates the sensitivity at the end of the reporting period to a reasonably possible change in the RMB/HK$, SG$/HK$ and JPY/HK$ exchange rates, with all other variables held constant, of the Group's loss before tax and of the Group's equity resulted from the translation of the Group's foreign operations:

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Foreign currency risk (Continued)

	Increase/ (decrease) in RMB/SG$/JPY rate %	Increase/ (decrease) in loss before tax HK$'000	Increase/ (decrease) in equity HK$'000
2018			
If HK$ weakens against RMB	**5**	**(5,554)**	**(18,221)**
If HK$ strengthens against RMB	**(5)**	**5,554**	**18,221**
If HK$ weakens against SG$	**5**	**(1,105)**	**2,115**
If HK$ strengthens against SG$	**(5)**	**1,105**	**(2,115)**
If HK$ weakens against JPY	**5**	**(146)**	**2,314**
If HK$ strengthens against JPY	**(5)**	**146**	**(2,314)**
2017			
If HK$ weakens against RMB	5	(4,071)	30,030
If HK$ strengthens against RMB	(5)	4,071	(30,030)
If HK$ weakens against SG$	5	(120)	13,223
If HK$ strengthens against SG$	(5)	120	(13,223)

(c) Credit risk

The Group trades only with recognised and creditworthy third parties. It is the Group's policy that all customers who trade on credit terms are subject to credit verification procedures. In addition, receivable balances are monitored on an ongoing basis and the Group's exposure to bad debts is not significant.

Maximum exposure and year-end staging as at 31 December 2018

The table below shows the credit quality and the maximum exposure to credit risk based on the Group's credit policy, which is mainly based on past due information unless other information is available without undue cost or effort, and year-end staging classification as at 31 December 2018. The amounts presented are gross carrying amounts for financial assets.

	12-month ECLs	Lifetime ECLs			
	Stage 1 HK$'000	**Stage 2** HK$'000	**Stage 3** HK$'000	**Simplified approach** HK$'000	**Total** HK$'000
Lease, factoring and trade receivables	–	–	–	193,651	193,651
Loan receivables	–	68,080	–	–	68,080
Financial assets included in prepayments, deposits and other receivables					
– Normal*	41,993	–	–	–	41,993
– Doubtful*	–	–	96,734	–	96,734
Restricted cash					
– Not yet past due	360	–	–	–	360
Cash and cash equivalents					
– Not yet past due	188,435	–	–	–	188,435
	230,788	68,080	96,734	193,651	589,253

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Credit risk (Continued)

* The credit quality of the financial assets included in prepayments, deposits and other receivables is considered to be "normal" when they are not past due and there is no information indicating that the financial assets had a significant increase in credit risk since initial recognition. Otherwise, the credit quality of the financial assets is considered to be "doubtful".

Maximum exposure as at 31 December 2017

At 31 December 2017, the Group had certain concentrations of credit risk as 56% and 100% of the Group's lease, factoring and trade receivables were due from the Group's largest customers and the four largest customers, respectively. Further quantitative data in respect of the Group's exposure to credit risk arising from lease, factoring and trade receivables are disclosed in note 21 to the financial statements.

The credit risk of the Group's other financial assets, which comprise cash and cash equivalents, restricted cash and other receivables, arises from default of the counterparty, with a maximum exposure equal to the carrying amounts of these instruments.

The Group places its cash deposits with major international banks in Hong Kong, state-owned banks in Mainland China, Singapore and Japan, to minimise the Group's exposure to the credit risk.

(d) Liquidity risk

The maturity profile of the Group's financial liabilities, as at the end of the reporting period, based on the contractual undiscounted payments, is as follows:

	Within one year or on demand HK$'000	One to five years HK$'000	Total HK$'000
At 31 December 2018			
Trade payables	525	–	525
Other payables and accruals	22,479	666	23,145
Other loans	219,864	–	219,864
	242,868	666	243,534
At 31 December 2017			
Trade payables	1,361	–	1,361
Other payables and accruals	19,572	580	20,152
Other loans	177,292	–	177,292
	198,225	580	198,805

40. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(e) Capital management

The primary objectives of the Group's capital management are to safeguard the Group's ability to continue as a going concern and to maintain healthy capital ratios in order to support its business and maximise shareholders' value.

The Group manages its capital structure and makes adjustments to it in light of changes in economic conditions. In order to maintain or adjust the capital structure, the Group may issue new shares to increase capital. The Group is not subject to any externally imposed capital requirements. No changes were made in the objectives, policies or processes for managing capital during the year ended 31 December 2018.

The Group monitors capital using the gearing ratio, which is total debts divided by the total equity attributable to shareholders of the Company. Total debts include trade payables, other payables and accruals and other loans. The gearing ratio as at the end of the reporting period was as follows:

	2018 **HK$'000**	2017 HK$'000
Trade payables	**525**	1,361
Other payables and accruals	**23,145**	20,152
Other loans	**219,864**	177,292
Total debts	**243,534**	198,805
Total equity attributable to shareholders of the Company	**531,596**	686,702
Gearing ratio	**46%**	29%

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY

Information about the statement of financial position of the Company as at the end of the reporting period is as follows:

	2018 HK$'000	2017 HK$'000
NON-CURRENT ASSETS		
Property, plant and equipment	1,176	251
Investments in subsidiaries	183,330	194,448
Due from subsidiaries	87	77
Equity investments at fair value through other comprehensive income	1,952	–
Available-for-sale investments	–	7,181
Prepayments, deposits and other receivables	78,802	84,691
Total non-current assets	265,347	286,648
CURRENT ASSETS		
Prepayments, deposits and other receivables	2,345	2,566
Due from subsidiaries	228,287	253,435
Cash and bank balances	5,334	78,560
Total current assets	235,966	334,561
CURRENT LIABILITIES		
Other payables and accruals	3,296	2,061
Due to subsidiaries	5,743	5,748
Total current liabilities	9,039	7,809
NET CURRENT ASSETS	226,927	326,752
Net assets	492,274	613,400
EQUITY		
Share capital	2,703,301	2,703,301
Reserves (note)	(2,211,027)	(2,089,901)
Total equity	492,274	613,400

Director
Zong Hao

Director
Xu Zhuliang

41. STATEMENT OF FINANCIAL POSITION OF THE COMPANY (Continued)

Note: A summary of the Company's reserves is as follows:

	Equity investment revaluation reserve HK$'000	**Accumulated losses HK$'000**	**Total HK$'000**
At 1 January 2017	1,035	(2,013,962)	(2,012,927)
Loss for the year	–	(75,939)	(75,939)
Other comprehensive loss for the year:			
Fair value loss of available-for-sale investments	(1,035)	–	(1,035)
Total comprehensive loss for the year	(1,035)	(75,939)	(76,974)
At 31 December 2017 and 1 January 2018	–	(2,089,901)	(2,089,901)
Loss for the year	–	(120,566)	(120,566)
Other comprehensive loss for the year:			
Fair value loss of equity investments at fair value through other comprehensive income	(560)	–	(560)
Total comprehensive loss for the year	(560)	(120,566)	(121,126)
Transfer of equity investment revaluation reserve upon disposal of equity investments at fair value through other comprehensive income	(1,060)	1,060	–
At 31 December 2018	(1,620)	(2,209,407)	(2,211,027)

42. APPROVAL OF THE FINANCIAL STATEMENTS

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

FIVE–YEAR FINANCIAL SUMMARY

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

RESULTS

	Year ended 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
CONTINUING OPERATIONS					
REVENUE	**23,553**	18,752	17,642	38,091	39,838
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	**(227,419)**	(112,180)	(178,682)	(542,677)	(1,846,370)
DISCONTINUED OPERATION					
PROFIT FOR THE YEAR FROM A DISCONTINUED OPERATION	**–**	–	–	2,372,190	–
PROFIT/(LOSS) BEFORE TAX	**(227,419)**	(112,180)	(178,682)	1,829,513	(1,846,370)
INCOME TAX	**18,259**	5,873	9,842	79,716	43,111
PROFIT/(LOSS) FOR THE YEAR	**(209,160)**	(106,307)	(168,840)	1,909,229	(1,803,259)
Attributable to:					
Shareholders of the Company	**(143,308)**	(60,230)	(111,384)	2,020,128	(1,723,508)
Non-controlling interests	**(65,852)**	(46,077)	(57,456)	(110,899)	(79,751)
	(209,160)	(106,307)	(168,840)	1,909,229	(1,803,259)

ASSETS, LIABILITIES AND EQUITY

	At 31 December				
	2018 HK$'000	2017 HK$'000	2016 HK$'000	2015 HK$'000	2014 HK$'000
TOTAL ASSETS	**754,650**	951,062	973,438	736,837	2,315,325
TOTAL LIABILITIES	**(262,664)**	(239,758)	(174,951)	(148,929)	(3,669,043)
Net assets/(liabilities)	**491,986**	711,304	798,487	587,908	(1,353,718)
EQUITY/(DEFICITS) ATTRIBUTABLE TO SHAREHOLDERS OF THE COMPANY	**531,596**	686,702	731,551	454,802	(1,509,337)
NON-CONTROLLING INTERESTS	**(39,610)**	24,602	66,936	133,106	155,619
Total equity/(deficits in assets)	**491,986**	711,304	798,487	587,908	(1,353,718)