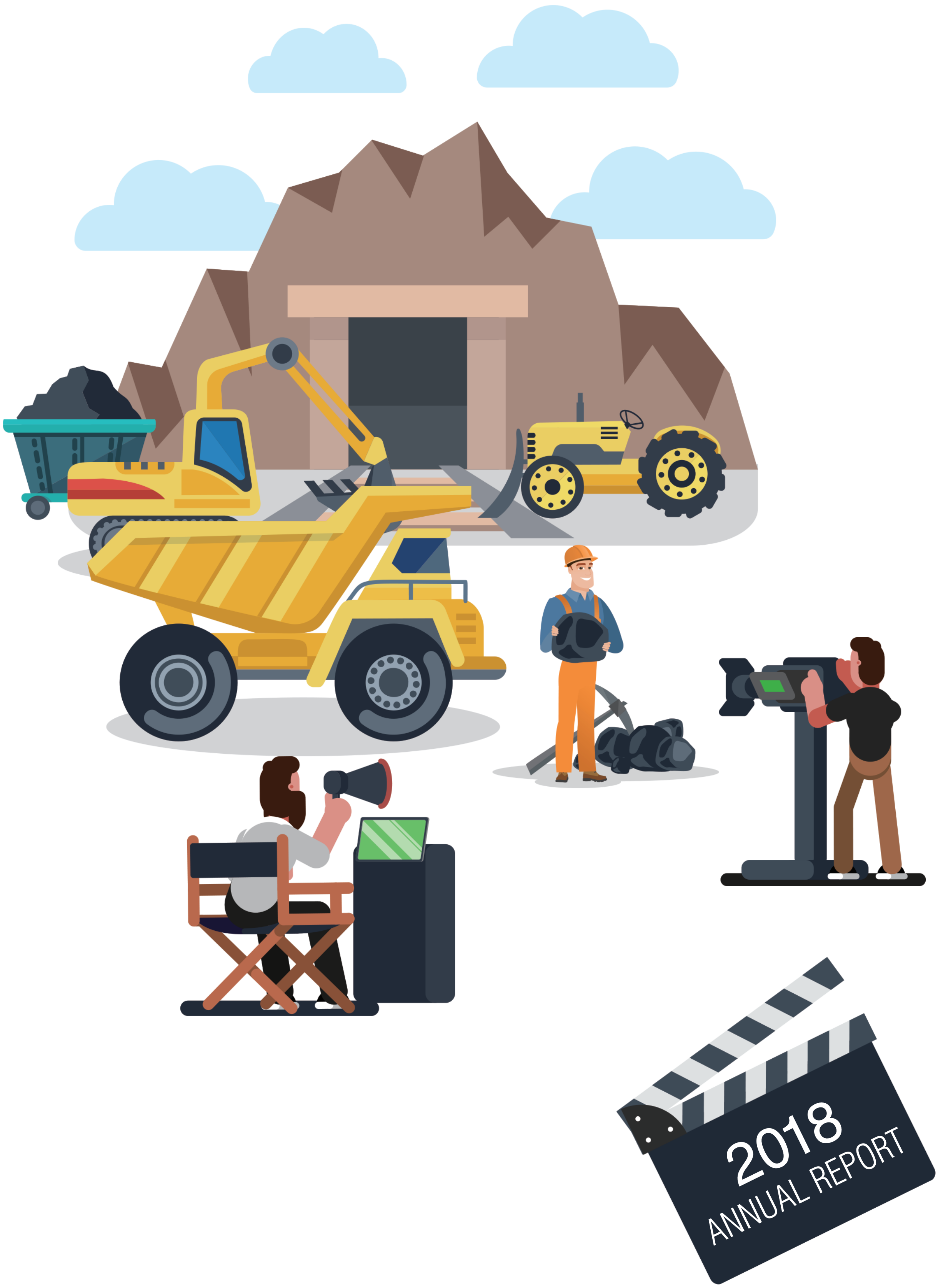
SSP 南海石油

South Sea Petroleum Holdings Limited

STOCK CODE : 76



CONTENTS

CORPORATE INFORMATION

DIRECTORS

Han Zhi Jun, *Independent Non-Executive Director and Vice-Chairman*
Feng Zhong Yun, *Executive Director and Managing Director*
Zhang Xue, *Executive Director*
Lu Ren Jie, *Independent Non-Executive Director*
Chai Woon Chew, *Independent Non-Executive Director*
Ng Lai Po, *Independent Non-Executive Director*

COMPANY SECRETARY

Lam Lee Yu

REGISTERED OFFICE

Unit 1002, 10/F., Euro Trade Centre
13-14 Connaught Road Central and 21-23 Des Voeux Road Central
Hong Kong

SHARE REGISTRAR

Computershare Hong Kong Investor Services Limited
46th Floor, Hopewell Centre
183 Queen's Road East
Hong Kong

PRINCIPAL BANKER

DBS Bank Ltd.

AUDITOR

BDO Limited

FINANCIAL HIGHLIGHTS

	2018 US$'000	2017 US$'000 (Restated)
Revenue	**114,874**	62,880
Profit/(Loss) from Operating Activities	**1,389**	(1,478)
Profit/(Loss) Attributable to Owners of the Company	**6,909**	(9,577)
Total equity Attributable to Owners of the Company	**366,823**	363,939
Earnings/(Losses) Per Share (US Cents)		
– Basic and diluted	**0.14**	(0.25)

MANAGEMENT'S DISCUSSION AND ANALYSIS OF FINANCIAL CONDITION AND RESULTS OF OPERATIONS

(In this report, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

For the year ended 31 December 2018, the revenue of the Group was $114.9 million, representing an increase of $52.0 million, or 82.7%, as compared to $62.9 million for the prior year. The net profit attributable to owners was $6.9 million, or 0.14 cents profit per share, as compared to net loss $9.6 million or 0.25 cent loss per share, for the year of 2017. As at 31 December 2018, the total assets of the Group were $426.5 million, as compared to $444.3 million at 31 December 2017, and the net assets of the Group were $366.8 million at 31 December 2018, as compared to $363.9 million at 31 December 2017.

BUSINESS REVIEW

After disposal of its Indonesia based crude oil operations in March, 2018 (as discussed below), the Group's businesses consist of (i) production and trading of minerals, primarily graphite products, worldwide, (ii) provision of electronic manufacturing products and services in the United Kingdom, and (iii) multi-media development and motion picture production.

The Company has been engaged in the production and sale of graphite products worldwide for more than 10 years. The graphite business operations are considered by the Company as its main path for profit growth. The customers include steel mills, lithium battery companies, refractory material companies and users of graphite products in China and around the world.

The Company's electronic manufacturing businesses are operated by its wholly-owned subsidiary Axiom Manufacturing Services Limited in the U.K ("Axiom"). Axiom offers comprehensive contract manufacturing services, from design of electronic products to manufacturing, to the medical, national defense, transportation, aerospace, security, maritime and natural gas industries and other sectors. The electronic products of contract manufacturing and design are usually labeled with customers' brand names. Axiom's customers are mainly located in the UK and North America.

Through its wholly-owned subsidiary Unicorn Arts Limited ("Unicorn"), the Company's cultural and multi-media business operations include motion picture production, television and online programming, and introduction of valuable foreign movies to Mainland China, etc. The production of the Company's first movie, "Pegasus", a black-humor feature film with an anti-war and anti-nuclear weapons theme, has been completed.

Graphite Production

The Company has been engaged in graphite business for more than 10 years. Graphite is widely used in aerospace, steel, automobile, electric vehicle, battery and lubricant industries. On the one hand, as a nonrenewable mineral resource, graphite deposits in the world are limited and diminishing. On the other hand, Since Andre Geim and Konstantin Novoselov received their Nobel Prize in 2010 for their discovery of the unique properties of graphene, the demand for graphite as a strategic material has been increased. Fourteen materials including graphite and rare earth elements are viewed as key materials.

As its main development focus for profit growth, the Company seized an opportunity of purchasing a large amount of semi-processed mixed-grade graphite as strategic reserve in 2016, just like land reserves for real estate developers. The purchased graphite reserve will be mainly used as the Company's raw material for high-grade graphite products, which laid the foundation for the Company to further grow its graphite business. As at 31 December 2018, there is approximately $305.1 million semi-processed graphites as an inventory. In 2017, the Company built graphite production lines and in Madagascar, Africa. In January 2018, the newly built graphite production lines started to produce graphite products which is operated by an independent third party.

In order to grow and gain more profit, in addition to expand its existing graphite production facilities, the Company also planned to build additional graphite production lines in Madagascar. To finance the new graphite production lines, the Company decided to issue HK$600 million nil interest 10-year convertible debentures, which have been approved by the shareholders of the Company at its extraordinary general meeting held on 9 November 2018.

New High-Tech Joint Venture

In January 2018, Cityhill Limited, a wholly-owned subsidiary of the Company, entered into an agreement with a US company, which is listed on the OTC markets in the United States, to form a joint venture company. The name of the joint venture company is Gold Gold Gold Limited ("3G"), in which each party holds 50% of equity interest. The Group hopes that 3G will become another new venture with profit growth potential.

3G provides physical gold purchase, safekeeping, circulation and liquidation services to customers worldwide. The US company will help to develop North American and European markets, while Cityhill will help to develop Asian markets.

The main business of 3G is to accept purchase/sales orders from customers all over the world. Customers can purchase or sell physical gold at market prices. Customers can choose to take possession of the gold, or deposit the gold in exchange for electronic receipts of gold. Customers can tender their electronic receipts to withdraw gold or sell gold at market price at any time.

Disposal of Crude Oil Production Subsidiary

Since May 2000, through its wholly-owned subsidiary Kalrez Petroleum (Seram) Limited, the Company had been engaged in the operation of the Bula oilfield in Indonesia pursuant to the Production Sharing Contract ("Bula PSC") entered into with BPMIGAS, Department of Petroleum of Indonesia. The Bula PSC will expire in the end of 2019.

For the past few years, due to low oil price and ageing oilfields, the performance of Kalrez has negatively affected the Group's results of operations. As of 31 December 2017 and for the year ended 31 December 2017, both Kalrez's profit and net assets were negative, i.e. -US$1,500,000 and -US$5,100,000, respectively. Besides its oil business and assets in Indonesia, Kalrez did not have any other business or assets. When the Bula PSC expires in the end of 2019, all Kalrez's assets will belong to the Indonesian government pursuant to the Bula PSC. In addition, Kalrez will be liable for the severance payment to its employees and the plug and abandon liabilities. The Company believed that it was in the best interest of all shareholders of the Company to sell Kalrez to end continuing losses.

In March 2018, Global Select Limited, a wholly-owned subsidiary of the Company, entered into a sale and purchase agreement with PT Hana Mandiri Global, an energy investment company in Indonesia, whereby PT Hana Mandiri Global agreed to purchase from Global Select 100% of equity interest in its wholly-owned subsidiary Kalrez Petroleum (Seram) Limited ("Kalrez") for US$600,000.

Disposal of 25% Interest Equity of Shanghai Guo Xiong

On September 28, 2018, Liaoning Sinorth Resources Co., Ltd., a wholly-owned subsidiary of the Company, sold its 25% interest equity of Shanghai Guo Xiong Investment and Development Co., Limited ("Shanghai Guo Xiong"), to an investor for RMB11,310,000 in cash.

The principal business of Shanghai Guo Xiong is investing in real properties in Shandong Province, China. Liaoning Sinorth acquired 25% interest equity of Shanghai Guo Xiong for RMB10,100,000 in March 2018. Due to the Sino-U.S. trade dispute, unstable factors affecting the real property market in China may increase, the Company decided not to hold the investment for the long term to reduce risk.

The consideration of RMB11,310,000 was negotiated and agreed between the purchaser and the Company, and was fully paid by the purchaser to the Company upon the signing of the contract. From the sale of 25% interest equity of Shanghai Guo Xiong, the Company had capital gain of approximately RMB1,210,000, which was used as general working capital of the Company.

RESULTS OF OPERATIONS

Continuing operations

For the year ended 31 December 2018, the Group's revenue was $114.9 million, an increase of $52.0 million, or 82.7%, as compared to $62.9 million for the year of 2017. In 2018, the Group's turnover of graphite operations was $49.4million, an increase of 409.3%, as compared to $9.7 million in 2017. The significant increase in sales of graphite products was primarily because the Company's newly built graphite production lines in Madagascar, Africa, has started to operate in January 2018.

For the year ended 31 December 2018, the turnover of the Group's electronics manufacturing service operation was $65.0 million, representing an increase of $12.1 million, or 22.9%, as compared to $52.9 million for the prior year. The increase in electronics manufacturing service revenue was primarily due to an increase in sales. For the period under review, the Company's cultural operations generated no revenues. All film project costs were recorded as non-current assets in the Group's consolidated financial statements. Those film project costs will be recognized with the theatrical distribution of the motion picture for exhibition.

Discontinued operations

The turnover of the Group's crude oil operation in 2017 was $3.1 million while no turnover was recorded in 2018. It was primarily due to the disposal of the entire interest of the subsidiary in March 2018, which was engaged in crude oil operations.

LIQUIDITY AND FINANCIAL RESOURCES

The Group's operations are primarily funded by cash flows from its operations and from issuance of convertible debentures of the Company. At 31 December 2018, the Group's cash and cash equivalents were $14.4 million as compared to $10.2 million as at 31 December 2017.

For the year ended 31 December 2018, the Group's operating activities generated net cash of $16.5 million. By comparison, net cash used in operating activities was $32.7 million for the year of 2017. During 2018, the Group's investing activities used net cash of $8.8 million, primarily from purchase of machinery and equipment and from sales proceeds from disposal of subsidiary and financial assets. By comparison, net cash provided by the Group's investing activities in 2017 was $1.6 million. For the year ended 31 December 2018, the Group used cash of $0.2 million in financing activities. By comparison, net cash provided in financing activities was $27.5 million in 2017.

As at 31 December 2018, the Group's gearing ratio, calculated as the aggregate of bank overdraft and finance lease divided by the amount of total equity, was nil (2017: 0.07%).

The Group believes that its cash balance and the cash generated from operations activities are adequate to meet its operating expenses and capital expenditure. However, the Group's continuing operating and investing activities may require it to obtain additional sources of financing. In that case, the Group may seek financing from institutional investors, banks, or other sources of financing. There can be no assurance that any necessary additional financing will be available to the Group at that time.

INDEBTEDNESS

As at 31 December 2018:

- The Company did not have any bank borrowings or committed bank facilities;
- The Company did not have any borrowings from any related parties; and
- The Company did not have any bank overdrafts.

Since 31 December 2018 and up to the date of this report, there has been no material adverse change to the indebtedness of the Group.

(In this report, all the "$" refers to the legal currency of the United States of America, unless otherwise specified)

CONTINGENT LIABILITIES

As at 31 December 2018, the Group did not have any significant contingent liabilities.

COMITTMENTS

As at 31 December 2018, the Group's operating lease commitments was approximately US$0.5 million (2017: US$0.3 million).

As at 31 December 2018, there were no capital commitments to the Group related to the purchase of fixed assets (2017: US$0.3 million).

CAPITAL STRUCTURE

There has been no change in capital structure of the Company in 2018. The capital of the Company comprises ordinary shares and other reserves.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had approximately 348 (2017: 406) employees in the United Kingdom, China, Madagascar and Hong Kong. The Group believes that its relationship with its employees is satisfactory.

The remuneration policy of the Group employees is set by the Remuneration Committee on the basis of the employees' merit, qualifications and competence. The emoluments of the Directors of the Company are decided by the Remuneration Committee. No share option scheme is in operation.

FOREIGN EXCHANGE EXPOSURE

The Group's principal operating subsidiaries earn revenues and incur costs in Hong Kong Dollars, US dollars, Chinese Renminbi and British pounds, respectively. For the year ended 31 December 2018, the Group did not enter into any foreign currency forward contracts or use any derivative contracts to hedge against the risk incurred from its currency exposure. The Group manages its currency risk by closely monitoring the movement of foreign currency rates and may consider hedging significant foreign currency exposure should the need arise.

DIVIDENDS

The Directors have decided not to declare any dividend for the year ended 31 December 2018 (2017: Nil).

LEGAL PROCEEDINGS

The Group is not aware of any pending or threatened legal proceeding that, if determined in a manner adverse to us, could have a material adverse effect on the business and operations of the Group.

SIGNIFICANT EVENTS AFTER THE REPORTING PERIOD

No significant event has occurred after the end of the reporting period and up to the date of this report.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company has complied with the code provisions of Corporate Governance Code and Corporate Governance Report contained in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited throughout the year ended 31 December 2018, except for three deviations as below:

Code provision A.2.1: The roles of chairman and chief executive should be separate

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Feng Zhong Yun performs both the roles of chairman and chief executive since Mr. Guan Xinmin, the former Chairman of the Company, passed away in May 2014. The Board believes that the current arrangement would provide the Company with strong and consistent leadership and facilitates the implementation and execution of the Company's business strategies. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances.

Code Provision A.4.1: Non-executive directors should be appointed for a specific term

Under the code provision A.4.1 of the Code, non-executive Directors (including independent non-executive directors) shall be appointed for a specific term and subject to re-election. None of the Company's existing independent non-executive Directors was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, the Company's Articles of Association stipulate that all independent non-executive directors shall retire and be re-elected at least once every three years, which is an adequate measure to ensure that the Company's corporate governance complies with the same level to that required under the Code on Governance Practices and Corporate Governance Code.

On 31 May 2018, Ms. Zhang Xue was re-elected as an executive director; and Mr. Han Zhi Jun and Mr. Lu Ren Jie were re-elected as an independent non-executive director, respectively.

Code Provision A.6.7: Independent non-executive directors and non-executive directors should attend general meeting

All independent non-executive directors were not able to attend the annual general meeting of the Company held on 31 May 2018 due to other business engagements.

COMPLIANCE WITH THE MODEL CODE FOR 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 the code of conduct in respect of transactions in securities of the Company by the Directors. Having made specific enquiries with all the Directors, the Company confirms that all the Directors have complied with the required standards as set out in the Model Code during the year ended 31 December 2018.

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

During the year ended 31 December 2018, neither the Company, nor any of its subsidiaries, purchased, sold, or redeemed any of the Company's securities.

DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS IN SHARES

At 31 December 2018, none of the Directors and executive officers of the Company and their respective associates had any interests or short positions in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the Securities and Futures Ordinance (the "SFO"), to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

DIRECTORS' INTERESTS IN CONTRACTS

During the year ended 31 December 2018, none of the Company's Directors had a material interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party.

At no time during the period under the review was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTEREST IN SHARES

At 31 December 2018, no person, other than a Director or Chief Executive's interests which are disclosed in the section "Directors' and Chief Executive's Interests and Short Positions in Shares" above, had registered an interest, short position, or lending pool in the shares or underlying shares or debentures of the Company that was required to be kept by the Company pursuant to Section 336 of the SFO.

AUDIT COMMITTEE AND REVIEW OF CONSOLIDATED FINANCIAL INFORMATION

The Audit Committee consists of the following independent non-executive directors: Mr. Ng Lai Po (Chairman), Mr. Lu Ren Jie, and Mr. Chai Woon Chew. The Audit Committee has adopted the terms of reference which are in line with Corporate Governance as set forth in Appendix 14 to the Listing Rules.

The Audit Committee has reviewed with the Company's management and the external auditors the accounting principles and practices adopted by the Group, and discussed auditing, internal controls and financial reporting matters, including the review of the annual results of the Group for the year ended 31 December 2018.

CHANGES IN AUDITORS

On May 16, 2018, UC CPA (Practising) Limited resigned as the Group's auditor as it no longer provides audit service. UC CPA has confirmed that there were no circumstances connected with its resignation which it considered should be brought to the notice of the shareholders or creditors of the Company. The Board confirmed that there was no disagreement between the Company and UC CPA, and was not aware of any matters in respect of the resignation of auditor that should be brought to the attention of the shareholders or creditors of the Company. On 9 November 2018, the shareholders of the Company approved the appointment of Elite Partners CPA Limited ("Elite Partners") as new auditors of the Group to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

On 22 May, 2019, the Board announces that Elite Partners has resigned as auditor of the Group with effect from 22 May 2019. The Board resolved to appoint BDO Limited as the new auditor of the Group with effect from 22 May 2019 to fill the casual vacancy following the resignation of Elite Partners and to hold office until the conclusion of the next annual general meeting of the Company. As stated in Elite Partners' letter of resignation to the Board and the audit committee of the Company dated 22 May 2019 that, the incompletion of the audit of the Financial Statements for the year ended 31 December 2018 on schedule was due to the supporting documents cannot be furnished in time addressing the outstanding matters below:

(i) the provision of additional information in support of the inventories on semi-processed graphite as at 31 December 2018;

(ii) details of management's assessment on implication of the accounting treatment on initial recognition of convertible debentures for the year ended 31 December 2017;

(iii) the provision of additional information in support of the uncertainty of release date of the film, additional information and supporting documents of the payments in film production, and

(iv) details of management's assessment on the tax implication on carrying out of business in Madagascar.

Elite Partners and the Company could not reach a consensus as to when the outstanding matters could be resolved as well as the timetable of completing the audit of the Financial Statements for the year ended 31 December 2018. As such, Elite Partners agreed to resign and the Company to appoint a new auditor. Save as disclosed above, the Board is not aware of any other matter in relation to the change of auditor that needs to be brought to the attention of the shareholders and creditors of the Company. Elite Partners has confirmed in writing that there were no circumstances connected with their resignation which they consider should be brought to the attention of the members or creditors of the Company pursuant to section 424 of the Hong Kong Companies Ordinance.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Directors confirm that the Company has maintained at all times during the year sufficient public float as prescribed by the Listing Rules.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

The annual report of the Company will be dispatched to its shareholders who elected to receive the printed version of the corporate communication of the Company and published on the Hong Kong Stock Exchanges and Clearing Limited's website (http://www.hkex.com.hk) and the Company's website (http://www.southseapetro.com.hk) in due course.

BOARD OF DIRECTORS

As at the date of this report, the board of directors is comprised of Mr. Feng Zhong Yun and Ms. Zhang Xue being executive directors, Mr. Han Zhi Jun, Mr. Chai Woon Chew, Mr. Ng Lai Po and Mr. Lu Ren Jie being independent non-executive directors.

On behalf of the Board

Feng Zhong Yun
Managing Director
Hong Kong, 30 August, 2019

The Directors are pleased to present their annual report together with the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2018, which were approved by the Board of Directors on 30 August 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding and the Group is principally engaged in the production and trading of minerals, primarily graphite products, worldwide, provision of electronic manufacturing products and services in the United Kingdom, and multi-media development and motion picture production.

In March 2018, the Company disposed its oil production subsidiary Kalrez Petroleum (Seram) Limited.

The details of the principal activities of the subsidiaries are set out in Note 17 to the consolidated financial statements.

BUSINESS REVIEW AND PERFORMANCE

Review of the businesses of the Group and discussion and analysis of the Group's performance (including key performance indicators) during the year ended 31 December 2018 and material factors underlying its results and financial position are provided in the section headed "Management Discussion and Analysis" and "Environment, Social and Governance Report" of this annual report.

The aforementioned references under this sub-section to other parts of this annual report form part of the Report of the Directors.

POSSIBLE RISKS AND UNCERTAINTIES

Other than as disclosed in the section headed "Foreign Exchange Exposure" in Management Discussion and Analysis, the Group faces possible risks and uncertainties in changing industrial and macroeconomic environment. To minimize the impact of various risks on the Group's operation, the Group designated the Board, the audit committee of the Board and management of the Group as the responsible parties of risks management.

The Group's management conducts corporate risk assessment on a regular basis and monitors risks continuously and takes appropriate actions targeted to different risks. The management reports the risk assessment and updates of relevant measures taken against material risks to the Board regularly, and the Board subsequently reviews and approves the risk assessment, marketing strategies, business plan and budgets submitted by the management, while the audit committee of the Board review the Group's finance, operation and compliance matters, the results of risks management and internal control system as well as the effectiveness of compliance with the Listing Rules.

The Group is exposed to various risks and uncertainties. The effects of such risks may vary over time. The following sets forth material risks classified by the Group according to its status quo and relevant alleviating measures for each material risk for the management of such risks.

(1) Business Risks: As the supplier is the only one who provides the Group with graphite ore in Madagascar for the Groups' production line in Madagascar, Africa, such reliance involves certain degree of risk. The Group will continue to look for potential graphite ore suppliers over the world, and reduce the risk.

(2) Financial Risks: Delayed payments of customers who were granted credit period by the Group will increase the Group's exposure to financial risks and have an impact on financial performance and operating cash flows of the Group.

The Group reviews accounts receivable due from major customers on a regular basis and control over it to an appropriate level, and manage and control strictly internally and put additional efforts to collect trade receivables overdue.

More discussion on financial risk management is set out in Note 37 to the consolidated financial statements.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Detail information on the environmental, social and governance practices adopted by the Company is set out in the Environment, Social and Governance Report. Please refer to pages 36 to 43.

COMPLIANCE WITH RELEVANT LAWS AND REGULATIONS

The Group seeks to uphold high standard of integrity in all aspects of business and is committed to ensure that its affairs are conducted in accordance with applicable laws and regulatory requirements and has formulated and adopted various internal control measures, approval procedures and training within all business units at all levels of the Group. During the year, there has been no violation or breach of relevant laws and regulations that had a significant impact on the Company.

RELATIONSHIP WITH KEY STAKEHOLDERS

The Group emphasizes on maintaining good relationship with its stakeholders and considers it a key element to sustainable business growth.

Employees

We have been people-oriented and have attached great importance to human resource management. We attract excellent talents through fair recruitment policy and provide employees with training opportunities, good career development prospect and growth opportunities. From time to time, we offer our employees remuneration packages that are comprehensive and attractive. We also value our employee's physical and mental development. Diverse events and activities are organised for the employees for fostering work-life balance and personal growth.

Customers

We are committed to offering our customers products and services to the best of our ability. We highly value comments and suggestions of our customers and have always maintained effective communications with the customers. We will continue to reach out for current and prospective customers through, inter-alia, on-site visits and major customers satisfaction surveys. We believe that customers' feedback would help us to identify areas of improvement and advance us to achieve excellence.

Suppliers

Maintaining good relationship with suppliers is essential to our business performance and growth because suppliers can have direct influence over the quality of our products and services and customer satisfaction. We value the partnership with our suppliers and works together to promote sustainable development of the industries they operate. We are committed to establishing a close and long-term cooperation relationship with our suppliers and business partners.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2018 are set out in the consolidated statement of profit or loss on page 50.

DIVIDENDS

For the year ended 31 December 2018, the Company did not declare or pay any dividend on its ordinary shares (2017: Nil). The Board does not recommend the payment of a final dividend for the fiscal year of 2018. The Company currently intends to retain all available funds for use in the operations and expansion of its business.

PROPERTY, PLANT AND EQUIPMENT

During the year the Group's Property, Plant and Equipment increased to approximately US$29.4 million at 31 December 2018 from approximately US$23.9 million at the end of 2017.

Details of the movements in the Property, Plant and Equipment of the Group during the year are set out in Note 14 to the consolidated financial statements.

SUBSIDIARIES

Particulars of the Company's subsidiaries as at 31 December 2018 are set out in Note 17 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group and of the Company during the year are set out in the consolidated statement of changes in equity and in Note 30 to the consolidated financial statements.

SHARE OPTIONS

As of 31 December 2018, there were no share options outstanding.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in Note 29 to the consolidated financial statements.

MAJOR CUSTOMERS AND SUPPLIERS

For the year ended 31 December 2018, the Group's purchases from the five largest suppliers accounted for approximately 16.5% of the Group's total purchases and purchases from the largest supplier included therein accounted for approximately 43.6% of the Group's total purchases.

During the year, the Group's sales to the five largest customers accounted for approximately 72.7% of the Group's total turnover and sales to the largest customer included therein accounted for approximately 23.2% of the Group's total sales.

None of the directors of the Company, their associates, nor any shareholders which to the best knowledge of the directors own more than 5% of the Company's issued share capital, had any beneficial interests in the Group's five largest customers and suppliers in 2018 and 2017.

Throughout the years, the Group maintained uninterrupted communications and a good relationship with its customers and suppliers without any major disputes.

FIVE YEARS FINANCIAL SUMMARY

A summary of the results and financial position of the Group for the last five financial years is set out on page 152.

DIRECTORS

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

Executive Directors:
Feng Zhong Yun, *Managing Director*
Zhang Xue

Independent Non-Executive Directors:
Han Zhi Jun, *Vice Chairman of the Board of Directors*
Lu Ren Jie
Chai Woon Chew
Ng Lai Po

A full list of the name of the directors of the Group's subsidiaries can be found in the Company's website at www.southseapetro.com.hk under Corporate Governance.

Directors' Biographical Details

Feng Zhong Yun, age of 51, has been the Company's executive director and Managing Director since 31 December 2012. Prior to that, he was the Company's Independent Non-executive Director from 15 November 2012 to 31 December 2012. Mr. Feng graduated from China Central Academy of Fine Arts and obtained his Bachelor of Arts degree in 1991.

Zhang Xue, age of 41, has been the Company's executive Director since 2009. She held a bachelor's degree in Accountancy from Qingdao University. From 2001 to 2007, Ms. Zhang served as Accounting Manager in Beifang Mining Group Limited.

Han Zhi Jun, age of 63, has been the Company's independent non-executive Director since August 2013. He graduated from the PLA College of Science and Technology, majored in Wireless Communications. Mr. Han joined the People's Liberation Army ("PLA") in 1969, promoted from soldier, platoon leader to officer of the General Staff Department of PLA until retired from the military in 1989. Mr. Han was a committee member of the All-China Federation of Industry and Commerce, a member of the Chinese People's Political Consultative Conference in Beijing, an executive director of the World Outstanding Chinese Fund, a committee member of Beijing Industrial and Commercial Association and Beijing Scientific and Industrial Association of National Defense. Mr. Han is currently the Chairman of Beijing Wanjun Chuangda Technology Development Ltd., the principal business of which is to research, develop and produce high-end national defense products.

Ng Lai Po, age of 51, has been the independent non-executive Director of the Company since 31 December 2012. Mr. Ng obtained his Bachelor of Social Sciences from the University of Hong Kong in 1990. Mr. Ng is a fellow member of the Association of Chartered Certified Accountants since 1999. Mr. Ng has over 25 years of experience in finance, accounting and management. Mr. Ng was the Internal Audit Controller of Kader Holdings Company Limited (HK listed stock code 180); the Head of Finance – China of Hong Kong G2000 Group; the Head of Group Financial Control of Chow Sang Sang Holdings International Limited (HK listed stock code 116); the Chief Financial Officer of A&H Manufacturing Group – Asia Region; the Financial Controller of Shenzhen Wanji Pharmaceutical Co., Ltd./Hong Kong Wanji Group Limited; the Financial Controller of Brightway Petroleum Group (Holdings) Ltd. Mr. Ng is currently the Chief Financial Officer of M&L Engineering & Materials Ltd.

Lu Ren Jie, age of 84, has been the independent non-executive Director of the Company since 1999 and is a member of the audit committee. Mr. Lu has over 40 years' experience in petroleum industry and had been responsible for many oilfield projects in China. He was an associate of the World Association of Production Science and Chairman of Shengli Branch of Society of Petroleum Engineers.

Chai Woon Chew, age of 61, has been the Company's independent non-executive Director since 2002. From 1994 to present, Mr. Chai has been a partner at Michael Chai & Co., a law firm in Kuala Lumpur, Malaysia. From 1991 to 1994, he was a legal associate with Shook Lin & Bok, a law firm in Kuala Lumpur, Malaysia. Mr. Chai holds a Bachelor of Laws (Hons) degree from the University of Buckingham and a Bachelor of Science (Hons) degree in Chemistry from University of Surrey, UK. Mr. Chai is qualified as Barrister at Law from Lincoln's Inn, England.

There are no family relationships among directors.

Under the existing Articles of Association of the Company, all of the directors are subject to retirement by rotation and re-election at the annual general meeting. In accordance with Articles of Association of the Company, Mr.Feng Zhong Yun, Mr. Chai Woon Chew and Mr. Ng Lai Po will retire by rotation and, being eligible, offer themselves for re-election at the coming annual general meeting.

INDEPENDENT NON-EXECUTIVE DIRECTORS

The Company has received from each Independent Non-Executive Directors an annual confirmation of his/her independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The Company considers all the Independent Non-Executive Directors to be independent.

DIRECTORS' SERVICE CONTRACTS

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

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision for the benefit of the Directors and officers of the Company is currently in force and remained in force throughout the year. Throughout the year, the Company has maintained appropriate directors and officers liability insurance which covers providing indemnity against liability, including but not limited to liability in respect of legal action against the Directors and officers thereby sustained or incurred arising from or incidental to execution of duties of his/her offices.

DIRECTORS' INTERESTS IN CONTRACTS AND CONNECTED TRANSACTIONS

During the year under review, none of the Company's directors had a material interest, either direct or indirect, in any contract of significance to the business of the Company to which the Company or any of its subsidiaries was a party.

At no time during the year was the Company or any of the Company's subsidiaries a party to any arrangements to enable the directors of the Company to acquire benefits by means of the acquisition of shares, or debentures of, the Company or any other body corporate.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

For the year ended 31 December 2018, none of the Company's directors are considered to have interests in the business which compete or are likely to compete with the business of the Group pursuant to the Listing Rules.

DIRECTORS' REMUNERATION

The emoluments of the directors are determined by the Board, as authorised by the shareholders at the AGM, with reference to directors' duties, responsibilities and performance and the results of the Group.

The emoluments of the directors of the Company (including executive directors and Independent Non-Executive Directors) on a named basis are set out in Note 10 to the consolidated financial statements for the year ended 31 December 2018.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Directors' and Chief Executives' Interests in Shares or Debentures" below, at no time during the year was the Company, or any of its subsidiaries a party to any arrangement to enable the Company's Directors or their respective spouses or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS IN SHARES OR DEBENTURES

At as 31 December 2018, none of the Directors and chief executive of the Company had interest in the shares, underlying shares and debentures of the Company and its associated companies, within the meaning of Part XV of the Securities and Futures Ordinance ("SFO"), which were notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO, including interests and short positions which the directors or the chief executive were deemed or taken to have under such provisions of the SFO, which are required to be entered in the register maintained by the Company pursuant to Section 352 of the SFO, or which were notified to the Company and the Stock Exchange, pursuant to the Model Code for Securities Transactions by the Directors of Listed Issuers ("Model Code") contained in the Listing Rules.

All directors have confirmed that they complied with the required standards set out in the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules throughout the review period.

ARRANGEMENT TO PURCHASE SHARES OR DEBENTURES

At no time during the year was the Company or any of its subsidiaries, a party to any arrangements to enable the Company's directors or chief executives to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SUBSTANTIAL SHAREHOLDERS AND OTHER PERSON'S INTEREST IN SHARES

As at 31 December 2018, no person had registered an interest or short position in the shares or underlying shares or debentures of the Company that was required to be kept record by the Company pursuant to Section 336 of the SFO.

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

During the period under review, neither the Company, nor its subsidiaries, purchased, sold, or redeemed any of the Company's listed securities.

PRE-EMPTIVE RIGHTS

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

CONFIRMATION OF INDEPENDENCE

The Company has received from each of its independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CODE OF CORPORATE GOVERNANCE PRACTICES

In the opinion of the directors, the Company has complied with the Corporate Governance Practices as set out in Appendix 14 of the Listing Rules throughout the accounting period covered by the annual report save for the deviation as disclosed in the Corporate Governance Report from pages 21 to 35.

SUFFICIENCY OF PUBLIC FLOAT

Based on the information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed amount of public float during the year and up to the date of this Annual Report as required under the Listing Rules.

INDEPENDENT AUDITOR

The consolidated financial statements of the Company and its subsidiaries for the year ended 31 December 2018 have been audited by BDO Limited, who are eligible, offer themselves for re-appointment. A resolution for the re-appointment of BDO Limited as auditors of the Company is to be proposed at the forthcoming Annual General Meeting.

On Behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 30 August, 2019

The Board is pleased to present this Corporate Governance Report for the year ended 31 December 2018.

The Company wishes to highlight the importance of the Board in ensuring effective leadership and control of the Company, transparency and accountability of all aspect of operations and that its business is conducted in accordance with applicable laws and regulations.

The Company also recognizes the importance of good corporate governance to the Group's healthy growth and has devoted considerable efforts to identifying and formulating corporate governance practices appropriate to the Group's needs.

CORPORATE GOVERNANCE PRINCIPLES

The Company's corporate governance practices are based on the principles and code provisions in the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("Listing Rules") on the Stock Exchange of Hong Kong (the "Listing Rules").

The board periodically reviews and monitors the Company's policies and practices on corporate governance or compliance with legal and regulatory requirements to ensure that the Group's operations are conducted in accordance with the standards of the CG Code and applicable disclosure requirements. For the year ended 31 December 2018, the Company complied with the all the CG Code, except for three deviations as below:

Code provision A.2.1: The roles of chairman and chief executive should be separate

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Feng Zhong Yun performs both the roles of chairman and chief executive since Mr. Guan Xinmin, the former Chairman of the Company, passed away in May 2014. The Board believes that the current arrangement would provide the Company with strong and consistent leadership and facilitates the implementation and execution of the Company's business strategies. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances.

Code Provision A.4.1: Non-executive directors should be appointed for a specific term

Under the code provision A.4.1 of the Code, non-executive Directors (including independent non-executive directors) shall be appointed for a specific term and subject to re-election. None of the Company's existing independent non-executive Directors was appointed for a specific term. This constitutes a deviation from code provision A.4.1 of the Code. However, the Company's Articles of Association stipulate that all independent non-executive directors shall retire and be re-elected at least once every three years, which is an adequate measure to ensure that the Company's corporate governance complies with the same level to that required under the Code on Governance Practices and Corporate Governance Code.

On 31 May 2018, Ms. Zhang Xue was re-elected as an executive director; and Mr. Han Zhi Jun and Mr. Lu Ren Jie were re-elected as an independent non-executive director, respectively.

Code Provision A.6.7: Independent non-executive directors and non-executive directors should attend general meeting

Mr. Lu Ren Jie, Mr. Chai Woon Chew and Mr. Han Zhi Jun being independent non-executive directors, were not able to attend the annual general meeting of the Company held on 31 May 2018 due to other business engagements.

THE BOARD OF DIRECTORS

Responsibilities

The Board is responsible for governing the Company and managing assets entrusted by the shareholders. The Board steers and oversees the management of the Company including, establishing the strategic direction and setting long-term objectives for the Company, monitoring the performance of the management, protecting and maximizing the interests of the Company and its shareholders, and reviewing, considering and approving and the subsequent reviewing and monitoring of the annual operations plan and results. The day-to-day management of the Group's business is delegated to the Executive Directors. The functions and power that are so delegated are reviewed periodically to ensure that they remain appropriate.

Matters reserved for the Board include those affecting the Group's overall strategies, operation plans, publication of financial statements, dividend policy, appointment of members to the various Board Committees and major investments. The Board is also responsible for developing, reviewing and monitoring the policies and practices on corporate governance and legal and regulatory compliance of the Group, and the training and continuous professional development of directors and senior management. The Board also reviews the disclosures in the Corporate Governance Report to ensure compliance.

Each director has a duty to act in good faith in the best interests of the Company. The directors are aware of their collective and individual responsibilities to the Company and the shareholders in respect of the manner in which the affairs of the Company are being controlled and managed.

Directors are requested to make declaration of their direct or indirect interests, if any, in any proposals or transactions to be considered by the Board. If a director has a potential conflict of interest in a matter to be considered by the Board which the Board has determined to be material, the matter will be dealt with in accordance with applicable rules and regulations and, if appropriate, an independent board committee will be set up to deal with the matter.

All directors have full access to and are provided with adequate, reliable and timely information about the operations and latest development of the Group to enable them to discharge their responsibilities and make timely decision. Through the company secretary, independent professional advice could be sought to assist the relevant Directors to discharge their duties at the Group's expense upon their request.

All Directors are required to declare to the Board upon their first appointment, the directorships or other positions they are concurrently holding at other companies or organizations. These interests are updated on an annual basis and when necessary.

Board Composition

The Board has a balance of skill, experience and diversity of perspective appropriate to the requirements of the business of the Group.

The Board currently comprises six members, consisting of two Executive Directors and four Independent Non-Executive Directors. More than one-third of the Board is represented by independent Non-Executive Directors with one of whom being a chartered certified accountant. The balanced composition of executive and independent non-executive members upholds the effective exercise of independent judgment of the Board.

The Board currently comprises the following Directors:

Executive Directors:
Feng Zhong Yun, *Managing Director*
Zhang Xue

Independent Non-Executive Directors:
Han Zhi Jun, *Vice Chairman*
Ng Lai Po
Lu Ren Jie
Chai Woon Chew

The biographical information of the Directors and their relationships between the members of the Board are set out in the "Director's Report" of this annual report.

Appointment and Re-election of Directors

The Company has established formal and transparent procedures for the appointment and succession planning of Directors. Currently no Directors are appointed for specific tenures but they are subject to retirement by rotation at least once three years and subject to re-election at the annual general meeting.

Independence of Independent Non-Executive Directors

The role of the independent non-executive Directors is to provide independent and objective opinions to the Board, giving adequate control and balances for the Group to protect the overall interests of the shareholders and the Group. They serve actively on the Board and its committees to provide their independent and objective views.

The independent non-executive Directors possess a wide range of business and financial expertise, experiences and, through participation in board meetings, offer independent judgement on issues of strategy, policy, performance, accountability, resources, key appointments and standard of conducts. Through taking the lead where potential conflicts of interests arise, serving on the Board committees, examining the Company's performance in achieving corporate goals and objectives and monitoring performance reporting, the independent non-executive Directors has become an integral part of the healthy growth of the Company.

During the year, the independent non-executive Directors also attended the annual general meeting of the Company, enabling them to develop a balanced understanding of the views of the shareholders.

Each of the independent non-executive Directors of the Company were not appointed for a specific term, as they were subject to retirement by rotation and re-election at least once every three years at the annual general meeting of the Company in accordance with the Company's Articles of Association.

During the year ended 31 December 2018, the Board at all times met the requirements of Rules 3.10(1), 3.10(2) and 3.10A of the Listing Rules relating to the appointment of at least three independent non-executive Directors, and with at least one of the independent non-executive Directors possessing appropriate professional qualifications, or accounting or related financial management expertise.

The Company confirms that it has received written annual confirmation from each independent non-executive Director concerning his/her independence pursuant to Rule 3.13 of the Listing Rules and considers that all independent non-executive Directors are independent in accordance with the factors set out in Rule 3.13 of the Listing Rules.

Directors' Continuous Training and Professional Development

All Directors are aware of their responsibilities to the Shareholders and have exercised their duties with care, skill and diligence, in pursuit of the development of the Group. All Directors are provided with updates on the Company's performance and financial position to enable the Board as a whole and each Director to discharge their duties. In addition, briefings and updates on the latest development regarding the Listing Rules and other applicable regulatory requirements are provided to the Board during Board meetings to ensure compliance and enhance their awareness of good corporate governance practices. The Company also, at its expense, arranges and provided suitable training, placing an appropriate emphasis on the roles, functions and duties of a listed company director.

A summary of training received by the Directors during the year ended 31 December 2018 is as follows:

Directors	Corporate Governance/ Updates on Laws, Rules & Regulations		Accounting/Financial/ Management or Other Professional Skills	
	Read Materials	Attended Seminars/ Briefings	Read Materials	Attended Seminars/ Briefings
Executive Directors				
Feng Zhong Yun	✓		✓	
Zhang Xue	✓		✓	
Independent Non-Executive Director				
Han Zhi Jun	✓		✓	
Ng Lai Po	✓		✓	
Lu Ren Jie	✓		✓	
Chai Woon Chew	✓		✓	

Board Meetings and Directors' Attendance

The Board meets regularly to discuss the overall strategy as well as the operation and financial affairs of the Company, and to review and approve the Company's annual and interim results. For regular Board meetings, notices of at least 14 days are given to facilitate maximum attendance of the Directors and agenda with supporting papers are sent to Directors not less than 3 days before the relevant meeting is held. Directors may propose to the Managing Director or the Company Secretary to include matters in the agenda for regular board meetings. At the meeting, the Directors are provided with the relevant documents to be considered and approved. Draft and final versions of minutes are sent to all Directors for their comments and records respectively within a reasonable time after the board meeting is held. Minutes of Board meetings are taken by the Company Secretary and are open for inspection by any Director.

Any material transaction or matter which involves conflicting interests of a substantial shareholder or a Director, are dealt with by a duly convened physical Board meeting, at which independent non-executive Directors having no material interest in the transaction should be present. Any Directors or any of their close associates having material interests in the transaction or matter shall abstain from voting and not to be counted in the quorum at meetings for approving such transactions.

During the year ended 31 December 2018, four board meetings were held. The table below sets out the attendance of each Director at the annual general meeting and the meetings of the Board and other Board committees held during the year:

Directors	Board Meeting	Audit Committee Meeting	AGM	EGM
Mr. Feng Zhong Yun	4/4	N/A	1/1	N/A
Ms. Zhang Xue	4/4	N/A	0/1	N/A
Mr. Ng Lai Po	2/4	2/2	0/1	N/A
Mr. Han Zhi Jun	4/4	N/A	0/1	N/A
Mr. Chai Woon Chew	2/4	2/2	0/1	N/A
Mr. Lu Ren Jie	4/4	2/2	0/1	N/A

Directors' Securities Transactions

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Companies (the "Model Code") as set out in Appendix 10 of the Listing Rules as its own code of conduct regarding securities transactions. Upon specific enquiries, all directors of the Company confirmed that they have complied with the relevant provisions of the securities dealing code throughout the year.

At 31 December 2018, none of the directors and executive officers of the Company and their respective associates had any interest or short position in the shares, underlying shares and debentures of the Company or any of its associated corporations that were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein or which were required, pursuant to the Model Code contained in the Listing Rules, to be notified to the Company and the Stock Exchange.

Chairman and Chief Executive Officer

Code provision A.2.1 provides that the roles of chairman and chief executive should be separate and should not be performed by the same person. The Company deviates from this provision because Mr. Feng Zhong Yun performs both the roles of chairman and chief executive since Mr. Guan Xinmin, the former Chairman of the Company, passed away in May 2014. The Board believes that the current arrangement would provide the Company with strong and consistent leadership and facilitates the implementation and execution of the Company's business strategies. The Board shall nevertheless review the structure from time to time in light of the prevailing circumstances.

Board Diversity Policy

The Board has adopted a board diversity policy to comply with the Code Provision on board diversity. The policy aims to set out the approach to achieve diversity in the Board to ensure that the Board has the balance of skills, experience and diversity of perspectives, including but not limited to gender, age, cultural and educational background, professional experience, knowledge and skills. In identifying suitable candidates, the Nomination Committee will consider candidates on merit and against the objective criteria with due regard for the benefits of diversity on the Board. During the year, there were no additions to the Board.

COMPANY SECRETARY

All directors have access to the advice and services of our Company Secretary. The Company Secretary reports to the Managing Director on board governance matters, and is responsible for ensuring that board procedures are followed and for facilitating communications among directors as well as with shareholders and management. The Company Secretary also responsible for the Company's compliance with the continuing obligations of the Listing Rules, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

During the year, the Company Secretary has complied with Rule 3.29 of the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited.

BOARD COMMITTEES

The Board is supported by a number of committees, including the Audit Committee, Nomination Committee and Remuneration Committee for overseeing specific aspects of the Company's affairs. Each Board Committee has its defined and written terms of reference approved by the Board covering its duties, powers and functions.

All Board Committees are provided with sufficient resources to discharge their duties, including access to management or independent professional advice if considered necessary.

Each Board committee consists of a majority of and is respectively chaired by an independent non-executive Director. Chairman and members of each Board committee as at the date of this report are set out below:

Audit Committee

The audit committee comprises three members, namely:

- Mr. Ng Lai Po *(Chairman)*
- Mr. Lu Ren Jie, and
- Mr. Chai Woon Chew

All members of audit committee are independent non-executive directors. The audit committee is chaired by Mr. Ng Lai Po, who possesses appropriate professional qualifications or accounting or related financial management expertise. None of the members of the Audit Committee is a former partner of the Company's existing external auditor.

The main duties of the Audit Committee include, among others, the followings:

(a) to review the financial statements and reports and consider any significant or unusual items raised by the Company's staff responsible for the accounting and financial reporting function, compliance officer or external auditor before submission to the Board;

(b) to review the Company's relationship with the external auditor with reference to the work its performed, its fees and terms of engagement, and make recommendation to the Board on the appointment, re-appointment and, if appropriate, removal of external auditor;

(c) to review the adequacy and effectiveness of the Company's financial reporting system, the Group's financial control, internal control and risk management systems, including but not limited to adequacy of resources available to its respective functions, staff qualifications and experience and training programmes; and

(d) to consider and identify risks of the Group and consider effectiveness of the Group's decision making processes in crisis and emergency situations and approve major decisions affecting the Group's risk profile or exposure.

The written terms of reference describing the authority and duties of the Audit Committee was prepared and adopted with reference to the CG Code and "A Guide for The Formation of An Audit Committee" published by the Hong Kong Institute of Certified Public Accountants.

The Audit Committee held two meetings during the year ended 31 December 2018 to review half-yearly and annual financial results and reports, financial reporting and compliance procedures, internal control and risk management systems, effectiveness of internal audit function, the auditor's independence and objectivity. Full minutes of the meetings are duly kept and draft and final versions of the same have been sent to all committee members for comment and records, within reasonable time afterwards in accordance with the relevant Code Provisions. The Audit Committee also met with the Company's auditor twice during the year and recommended the appointment of the Company's external auditor and the Board has taken no different view in respect of the Audit Committee's recommended appointment.

At the end of 2018 and up to the date of this report, there are no material uncertainties relating to events or conditions that may cast significant doubt on the Company's ability to continue as a going concern.

The Company's annual results for the year ended 31 December 2018 have been reviewed by the Audit Committee.

Nomination Committee

The nomination committee comprises three independent non-executive directors, namely:

- Mr. Lu Ren Jie *(Chairman)*
- Mr. Chai Woon Chew
- Mr. Ng Lai Po

Terms of reference of the nomination committee set out the committee's authorities and duties, which follow closely the guidelines of the code provisions of the CG Code. The principal duties of the nomination committee are as follows:

(i) to review the structure, size and composition (including skills, knowledge and experience) of the Board at least annually and make recommendations on any proposed changes to the Board to complement the Company's corporate strategy;

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

(iii) to make recommendations to the Board on the appointment or re-appointment of directors and succession planning for directors, in particular the chairman and the chief executive.

The Board's nomination policy is to find individuals of high integrity who have a solid record of accomplishment in their chosen fields and who possess the qualifications, qualities and skills to effectively represent the best interests of the Company and its shareholders. Candidates will be selected for their ability to exercise good judgment, and to provide practical insights and diverse perspectives. Candidates also will be assessed in the context of the then-current composition of the Board, the operating requirements of the Company. In conducting this assessment, the Nomination Committee will, in connection with its assessment and recommendation of candidates for director, consider diversity (including, but not limited to, gender, race, ethnicity, age, experience and skills) and such other factors as it deems appropriate given the then-current and anticipated future needs of the Board and the Company, and to maintain a balance of perspectives, qualifications, qualities and skills on the Board.

The nomination committee held one meeting during the year. In the meeting, the nomination committee (i) reviewed the existing structure, size and composition of the Board; (ii) reviewed the independence of independent non-executive directors; and (iii) made recommendations to the Board on the proposed re-election of the retiring directors at the forthcoming annual general meeting.

Remuneration Committee

The Remuneration committee comprises three members, namely:

- Mr. Chai Woon Chew *(Chairman)*
- Mr. Lu Ren Jie, and
- Mr. Ng Lai Po

Terms of reference of the remuneration committee set out the committee's authorities and duties, which follow closely the guidelines of the code provisions of the CG Code. The principal duties of the remuneration committee are as follows:

The principal duties of the remuneration committee are to provide advices and recommendations to the Board on:

(i) the remuneration packages to the directors and senior management;

(ii) any specific remuneration package with reference to market conditions, performance of the Group and the individuals and with reference to the goals as set by the Board from time to time; and

(iii) if necessary, any compensation arrangement for termination of office of directors or senior management.

The remuneration committee held one meeting during the year. In the meeting, the remuneration committee reviewed and recommended for the remuneration packages of the directors and senior management for the year approved by the Board.

Executive Directors' Remuneration

The remuneration paid to the executive Directors of the Company in 2018 was as below:

Name of Executive Directors	Compensation Per Annum (US$'000)
Mr. Feng Zhong Yun	15
Ms. Zhang Xue	32

No executive Director has a service contract with the Company or any of its subsidiaries with a notice period in excess of one year or with provisions for predetermined compensation on termination that exceeds one year's salary and benefits in kind.

Remuneration of Non-Executive Directors

The role of non-executive Directors has become more complex and demanding due to regulatory changes and the increasing part they play in the governance of listed companies. The Company believes that the level of remuneration for any particular non-executive Directors should reflect the likely workload, the scale and complexity of the business and the responsibility involved.

Non-executive Directors of the Company are paid fees in line with market practice. Executive Directors serving on the board and board committees are not entitled to any directors' fees. The non-executive Directors of the Company received no other compensation from the Company except for the fees disclosed in this Annual Report.

Directors' and Officers' Insurance

The Company has arranged for appropriate insurance coverage in respect of potential legal actions against the Directors and officers against losses or liabilities sustained or incurred arising from or incidental to execution of their duties. The insurance coverage is reviewed on an annual basis or any intervals as deemed appropriate by the Board. For the year ended 31 December 2018, no claims under the insurance policy were made.

DIRECTORS' RESPONSIBILITY FOR FINANCIAL STATEMENTS

The Board acknowledges its responsibilities for overseeing the preparation of the financial statements of the Group for the year ended 31 December 2018. The Board ensures that the financial statements of the Group are prepared as to give a true and fair view of the Group's state of affairs, the results and cash flow for the year, and on a going concern basis in accordance with statutory requirements and applicable accounting and financial reporting standards.

The Board also ensures timely publication of the Group's financial statements and aim to present a clear, balanced and understandable assessment of the Group's performance and position through all its publications and communications to the public. The Board is also aware of the requirements under the applicable rules and regulations about timely disclosure of inside information.

The report from the auditor of the Company regarding their responsibilities and opinion on the financial statements of the Group for the year ended 31 December 2018 is set out in the "Independent Auditor's Report" in this annual report.

EXTERNAL AUDITOR

On May 16, 2018, UC CPA (Practising) Limited resigned as the Group's auditor as it no longer provides audit service. UC CPA has confirmed that there were no circumstances connected with its resignation which it considered should be brought to the notice of the shareholders or creditors of the Company. The Board confirmed that there was no disagreement between the Company and UC CPA, and was not aware of any matters in respect of the resignation of auditor that should be brought to the attention of the shareholders or creditors of the Company. On November 2018, the shareholders of the Company approved the appointment of Elite Partners CPA Limited ("Elite Partners") as new auditors of the Group to fill the casual vacancy and to hold office until the conclusion of the next annual general meeting of the Company.

On 22 May, 2019, the Board announces that Elite Partners has resigned as auditor of the Group with effect from 22 May 2019. The Board resolved to appoint BDO Limited as the new auditor of the Group with effect from 22 May 2019 to fill the casual vacancy following the resignation of Elite Partners and to hold office until the conclusion of the next annual general meeting of the Company. As stated in Elite Partners' letter of resignation to the Board and the audit committee of the Company dated 22 May 2019 that, the incompletion of the audit of the Financial Statements for the year ended 31 December 2018 on schedule was due to the supporting documents cannot be furnished in time addressing the outstanding matters below:

(i) the provision of additional information in support of the inventories on semi-proceed graphite as at 31 December 2018;

(ii) details of management's assessment on implication of the accounting treatment on initial recognition of convertible debentures for the year ended 31 December 2017;

(iii) the provision of additional information in support of the uncertainty of release date of the film, additional information and supporting documents of the payments in film production, and

(iv) details of management's assessment on the tax implication on carrying out of business in Madagascar.

Elite Partners and the Company could not reach a consensus as to when the outstanding matters could be resolved as well as the timetable of completing the audit of the Financial Statements for the year ended 31 December 2018. As such, Elite Partners agreed to resign and the Company to appoint a new auditor. Save as disclosed above, the Board is not aware of any other matter in relation to the change of auditor that needs to be brought to the attention of the shareholders and creditors of the Company. Elite Partners has confirmed in writing that there were no circumstances connected with their resignation which they consider should be brought to the attention of the members or creditors of the Company pursuant to section 424 of the Hong Kong Companies Ordinance.

The Audit Committee has been notified of the nature and the service charges of non-audit services performed by BDO Limited and considered that such services have no adverse effect on the independence of the external auditor.

Auditors' Remuneration

The Audit Committee is responsible for making recommendations to the Board on the appointment, re-appointment, removal and remuneration of the external auditor. The external auditor's independence and objectivity, and the effectiveness of the audit process are also reviewed and monitors by the Audit Committee on a regular basis.

The following table sets forth the fees paid to our independent auditors during the financial years ended 31 December 2018 and 2017:

Fee Category	2018 US$'000	2017 US$'000
Audit fees	385	138
Other services	27	18

The Board's policy is to pre-approve all audit services and all permitted non-audit services as set forth by the Listing Rules of the Hong Kong Stock Exchange to be provided by the Company's independent auditor.

The Audit Committee of the Board intends to re-appoint BDO Limited as its statutory auditor for the fiscal year 2019. The appointment is subject to approval and authorization by the Board of Directors and by the shareholders at the 2019 annual general meeting.

INTERNAL CONTROLS AND RISK MANAGEMENT

The Board acknowledges its responsibility in maintaining a sound and effective system of internal control for the Group to safeguard interests of the shareholders and assets of the Company at all times.

The Group's system of internal control which includes a defined management structure with limit of authority is designed to help the achievement of business objectives, safeguard assets against unauthorised use or disposition, ensure the maintenance of proper accounting records for the provision of reliable financial information for internal use or for external publication, and ensure compliance with relevant legislation and regulations. The system is designed to provide reasonable, but not absolute, assurance against material misstatement or loss and to manage rather than eliminate risks of failure in the operational systems and achievement of the Group's objectives.

Under Code Provision C.2.5, the Group should have an internal audit function. The Group conducted an annual review on the need for setting up an internal department. Given the Group's operating structure it is decided that the Board would directly responsible for risk management and internal control systems of the Group. The Board through the Audit Committee had conducted an annual review on the risk management and internal control systems of the Group. The review covered material controls, including financial, operational and compliance controls and risk management functions of the Group. Appropriate measures have been put in place to management the risks. No major issues were raised for improvement. The improvement of the systems of risk management and internal control is an ongoing process and the Board maintains a continuing commitment to strengthen the Group's control environment and processed.

The Company recognises that the release of inside information to place anyone in a privileged dealing position is strictly prohibited. Prior to the announcement of the inside information, all directors and senior management are requested to take all reasonable steps to maintain strict confidentiality and where it is reasonably likely that confidentiality may have been lost in respect of the inside information, the Company shall as soon as reasonably practicable, apply to the Stock Exchange for a trading suspension of its shares.

COMMUNICATIONS WITH SHAREHOLDERS

The Company is committed to ensure that the Group complies with disclosure obligations under the Listing Rules and other applicable laws and regulations, and that all shareholders and potential investors have an equal opportunity to receive and obtain externally available information issued by the Company.

The Company has established a number of channels for maintaining an on-going dialogue with its Shareholders as follows:

(i) Corporate communications such as annual reports, interim reports and circulars are issued in printed form and are available on the Stock Exchange's website at www.hkex.com.hk and the Company's website at www.southseapetro.com.hk;

(ii) Periodic announcements are made through the Stock Exchange and published on the respective websites of the Stock Exchange and the Company;

(iii) Corporate information and the Articles of Association of the Company are made available on the Company's website;

(iv) Annual General Meeting ("AGMs") and extraordinary general meetings ("EGMs") provide a forum for the shareholders to make comments and exchange views with the Directors and senior management; and

(v) The Company's share registrars' serves the Shareholders in respect of share registration, dividend payment, change of shareholders' particulars and related matters.

The Company welcomes the attendance of shareholders at general meetings to express their views. All the Directors are encouraged to attend the general meetings to have personal communication with shareholders. The external auditor is required to be present to assist the Directors in addressing any relevant queries by shareholders.

The Company has complied with the requirements of the Listing Rules and the Articles of Association in respect of voting by poll and other related matters.

SHAREHOLDER RIGHTS AND INVESTOR RELATIONS

Procedures for Shareholders to Convene an Extraordinary General Meeting

The shareholders of not less than 5% of the paid-up capital of the Company may request to call an Extraordinary General Meeting ("EGM") by writing to the Company at Unit 1002, 10/F, Euro Trade Centre, 13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong, the registered office of the Company, for the attention of the Company Secretary.

The requisition must state the purposes of the meeting and must be signed by the requisitionists. The requisition will be verified with the Company's Share Registrars and upon their confirmation that the request is proper and in order, the Company Secretary will ask the Board to convene an EGM by serving sufficient notice in accordance with the statutory requirements to all the registered Shareholders. If the request has been verified as not in order, the requisitionists will be advised of this outcome and accordingly, an EGM will not be convened as requested.

If the Board does not within 21 days from the date of the deposit of the requisition to proceed to convene the EGM for a day not more than 28 days after the date on which the notice convening the EGM is given, the requesting shareholders or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any meeting so convened shall be held within 3 months from the said date.

Procedures for Shareholders to Put Forward Proposals at a General Meeting

Shareholders can submit a written requisition to move a resolution at the General Meeting ("GM"). The number of shareholders shall represent not less than 5% of the total voting rights of all shareholders having, at the date of the requisition, a right to vote at the GM, or who are no less than 100 shareholders.

The written requisition must state the resolution, accompanies by a statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at the GM. It must also be signed by all of the shareholders concerned and be deposited at the Company's registered office in Hong Kong at Unit 1002, 10/F, Euro Trade Centre, 13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong, for the attention of the Company Secretary.

The shareholders concerned must deposit a sum of money reasonably sufficient to meet the Company's expenses in serving the notice of the resolution and circulating the statement submitted by the shareholders concerned under applicable laws and rules.

Shareholders' Enquiries

Shareholders may at any time send their enquiries and concerns to the Board in writing through the Company Secretary whose contact details are as follows:

South Sea Petroleum Holdings Limited
Attn: Company Secretary
Unit 1002, 10/F., Euro Trade Centre
13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong
Email: info@southseapetro.com.hk

Shareholders may also make enquiries with the Board at the general meetings of the Company.

CONSTITUTIONAL DOCUMENTS

There has been no change in the Company's constitutional documents during the year and up to the date of this report.

In order to be consistent with the new Hong Kong Companies Ordinance (Cap. 622) and consistent with the Company's business development, the Company intends to propose to change its corporate name and amend its Articles of Association at its forthcoming Annual General Meeting. The proposed name change and the amendment to the Articles of Association are subject to the approval of the Company's shareholders at its forthcoming Annual General Meeting.

On Behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 30 August, 2019

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company is pleased to present the Environmental, Social and Governance Report ("ESG") for the year ended 31 December 2018. This is the second ESG report we have disclosed to the public regarding our ESG management philosophy and performance of our practices.

The Company commits, not only to achieving strong financial results, but also to promoting environmental protection, social responsibility and effective corporate governance. In 2018, the Company strengthened its management efforts on the protection of environment, the quality management of products, the management of supply chains, the management of administration and personnel, public health and the utilization of resources. In order to create long-term value for its key stakeholders, including employees, customers, shareholders, suppliers and the community as a whole, the Company also communicates with them on an on-going basis and comprehensively evaluates and identifies the relevant matters relating to the ESG.

A. ENVIRONMENTAL PROTECTION

The Company undertakes environmental protection as part of its corporate responsibilities, and the Company is fully aware of the importance of sustainable environmental development in achieving sustainability in its operations. The Company has implemented a number of measures such as reducing carbon emission, hazardous and non-hazardous waste, increasing energy efficiency and conserving water resources in order to deliver its commitment to environmental protection. For the year ended 31 December 2018, the Company is not aware of any material non-compliance with applicable standards, rules and regulations relating to the aspects discussed in this report.

A.1. Emissions

The Company has enhanced its management of emissions through technological and recycling solutions that seek to reduce the emission of relevant pollutants and greenhouse gases, waste and water management. When conducting its businesses, the Company makes every effort to minimize its impact to the environment and make sure that all related emissions standards are met. Regular assessments are conducted on the Company's air and greenhouse gas emissions as well as the generation and disposal of hazardous and non-hazardous waste.

Our subsidiary Axiom Manufacturing Services Limited is accredited to ISO140001, and sets year on year targets to the reduction in the use of natural resources.

- Air conditioning is controlled.
- All waste paper, cardboard, and soft plastics are recycled.
- Energy saving light bulbs is used in the factory, car parks and for road lighting.
- Monitor water usage; however water is not used in the production process.
- No smoking is permitted within the building.
- Recycling of plastic bottles, aluminium cans, batteries take place.
- Electronic equipment is disposed of by specialist recycling companies.

The greenhouse gas emissions:

Energy Type	Consumption	CO_2 Emissions	CO_2 Emissions/Person
Electricity	2,726,148 kWh	958.4 tonnes CO_2 equivalent	3.082 tonnes CO_2 equivalent
Gas	1,597,488 kWh	294.1 tonnes CO_2 equivalent	0.946 tonnes CO_2 equivalent
Diesel	12,386 litres	32.2 tonnes CO_2 equivalent	0.104 tonnes CO_2 equivalent
Total		1,284.7 tonnes CO_2 equivalent	4.131 tonnes CO_2 equivalent

Measures to mitigate emissions:

Type	Quantity	Quantity/ Person	Reduction Measure
Hazardous	5.8 tonne	0.019 tonne	Move to using unleaded solder paste in the manufacturing process
Non-Hazardous	41.9 tonne	0.135 tonne	This is all the material that cannot currently be recycled. Move to recycling more and more waste
Cardboard	23.9 tonne	0.077 tonne	Encourage customers to use returnable packaging
Soft Plastics	3.6 tonne	0.012 tonne	Request supplier to use reusable packaging and move away from shrink wrapping and bubble wrapping raw material
Wood/Pallets	24.5 tonne	0.079 tonne	Rebate scheme in place for the return of good pallets

The effectiveness of the reduction in waste materials is measured and reviewed annually as part of the companies accreditation to ISO14001.

All different types of waste are segregated, and kept in secure areas until collected by the specialist waste disposal companies.

For the year under review, the Company and its subsidiaries complied with all the laws and regulations of environmental protection and emission of the locations the Company operates.

A.2. Use of Resources

The Company advocates the use of high-efficiency equipment, and strive to streamline the operational procedures, thereby reduce the consumption of fuel, electricity and water and improve the resource efficiency in its operations. The Company also applies energy saving measures in its workplaces including installation of an energy-saving lighting system, setting optimal temperature on the air-conditioning, and switching off the lighting and air-conditioning after office hours. The Company encourages its employees to switch off their computers and other office equipment when not utilized, and reduce the use of papers by assessing the necessity of printing and where appropriate to use duplex printing and reuse any single-side printed papers. The Company is committed to continue to reduce our paper, electric consumption and reduction of waste.

At our subsidiary Axiom Manufacturing Services Limited:

- No toxic or harmful materials are produced
- No water is used in the production process therefore nothing is discharged into the waste water system
- No harmful gases are produced by production or emitted from the factory
- Fume hoods are used when employees work with adhesives
- Documents are sent electronically wherever possible

Direct & Indirect energy consumption

Type	**Consumption**	**Consumption/Person**
Electricity	2,726,148 kWh	8,765.7 kWh
Gas	1,597,488 kWh	5,136.6 kWh
Water	9,870 m^3	31.74 m^3

Water consumption:

- Water in not used in the manufacturing process, and only used by employees in the washroom areas and in the canteen

Energy use efficiency initiatives:

- LED lighting
- Temperature control systems have been updated to reduce energy consumption

Sourcing of water, and efficiency initiatives

- Water is source from the local regulatory authority

Total packaging material used for finished products

- Only cardboard that can be recycled is used with finished products
- Some customers use returnable packaging

A.3. Environment and natural resources

The Company encourages its employees to identify and adopt advanced technologies, if any, that are suitable for each stage of the production process so as to minimize the impact of the business on the environment. By regular environmental monitoring, the Company ensures that it strictly complies with relevant environmental laws and regulations in its daily operations and closely monitors and timely identifies, controls and manages important environmental matters.

The effective implementation of environmental measures relies on the support of the internal and the external stakeholders. Therefore, the Company is committed to ensuring that its employees have clear understanding in the relevant policies and the specific requirements of the Company and to encouraging its business partners to align with the Company's policies to operate in a sustainable manner and achieve continuous improvement.

- All production equipment is CE marked to comply with European Union regulations
- Environmental guidelines are issued to all contractors
- Axiom has accreditation to ISO14001
- Axiom supports local Bee keeping allowing Bee hives to be kept in the garden and wooded area of the site
- All employees undertake environmental awareness at induction

B. SOCIAL COMMITMENT

B.1. Employment and Labour Practices

To ensure that the Company is able to operate according to professional and ethical labour practices, the Company has developed clear work processes with robust control mechanisms which have been clearly communicated to all employees. Certain policies to govern employees' affairs such as payroll, attendance and termination are clearly set out in staff appointment letters in compliance with Hong Kong Employment Ordinance. The Company's subsidiaries in China, Indonesia, and the UK are in compliance with the relevant labour laws and regulations in China, Indonesia and the UK, respectively.

The Company also aims to promote the diversity of workforce, including in terms of age, gender and nationality, as well as a culture of equal opportunity. The management regularly reviews the Company's remuneration policy in relation to relevant market standards.

B.2. Health and Safety

The Company has adopted a set of policies which is focused on maintaining a healthy and safe working environment, and which includes the following requirements:

– The facilities operated by employees should meet safety and health standards;

– Expert advice should be obtained to identify health and safety risk in the operations and the corresponding mitigating actions that should be taken; and

– Relevant information and training should be provided to employees in respect of risks to their health and safety which may arise out of their work.

The Company has established a mechanism for monitoring occupational health and safety, as well as procedures for dealing with related risks. The Company engages employees in the determination of appropriate occupational health and safety precautionary measures. Accident reporting and investigation procedures have also been adopted for the follow-up of any health and safety incidents.

Regular inspections and management review of health and safety have been performed to ensure the effectiveness of the policies and measures.

The following occupational health & safety measures were adopted by our subsidiary Axiom Manufacturing Services Limited:

- Risk assessments are conducted on all equipment purchased by the company
- COSHH data available to all employees
- Fire Alarm testing every week and evacuations twice a year
- Accident and incident reports every month
- First aiders trained on site
- The company provides an Occupation Health for all employees
- Visual acuity testing is conducted annually on all manufacturing employees (56.3% of the workforce)
- Health and Safety awareness is provided to all employees on induction
- Annual Private Medical cover is provided for all employees
- Employee consultation group every month, where improvement suggestions are collated
- Health & Safety group meet monthly to identify improvements

For the year ended 31 December 2018, the Company has strictly implemented the requirements and has had no safety accidents. The Company also has had no casualties relating to occupational diseases and work-related injuries.

B.3. Development and Trainings

The Company strives to promote the long-term development of its employees by providing learning opportunities that broaden their skills and make them valuable assets to the Company.

To encourage employee development, the Company provides human resource trainings to help equip employees with the knowledge and relevant skills to help them develop managerial knowledge and other professional skills that help advance their careers. New employees are provided with on-board trainings to help them familiarize themselves with the culture, business and operations of the Company. In addition, for technical posts, every newly-hired employee will be provided with pre-job technical training to enhance the professional skills necessary for the job.

B.4. Labor Standards

The Company strictly prohibits the use of child and forces labor and is totally committed to creating a work environment which respects human rights.

The Company also strictly complies with the relevant local labor regulations relating to working hours, minimum wage, rest and holidays to ensure the physical and mental health of all employees. Employees are not be forced to work beyond working hours and are entitled to overtime pay in accordance with local regulations.

B.5. Supply Chain Management

The Company values the partnership with suppliers and works together to promote sustainable development of the industries they operate. The Company continuously optimizes and improves the supplier management system, regulates the access, supervision, evaluation and departure of suppliers, and constantly increase specialization and transparency of supply chain management. The evaluation of a supplier mainly includes background, qualification, quality control of service, financial status, past performance in similar service, fulfillment of contract, professionalism of project team, operation in good integrity, social responsibility are evaluated. Whether the supplier is qualified is determined based on the evaluation results, and those suppliers failed to meet the requirements ultimately will be disqualified. The Company values communication with suppliers, including continuous communication with suppliers in routine work and establishing strategic cooperation with suppliers through technical support and unique competitive advantage, which can achieve win-win situation and strengthen the cooperation with each other.

B.6. Product Responsibility

The Company aims to achieve the highest possible standard with all the products and services provided. The Company has established relevant policies which cover product or service quality guarantee, safety, fair advertising and after-sale service in order to ensure relevant measures comply with the laws and regulations.

The Company pays highly attention to the quality and safety of its products and services. The Company sets up relevant quality and safety inspection policies for different type of products and services, communicates and confirms the working plans with customers before the productions or services start and actively coordinate the process of the productions or projects with customers.

The Company and its subsidiaries have close connection with their customers. If the customers do not satisfy the quality and the safety of the products or services, the Company will arranges sufficient channels and staffs for customers to communicate and provide the solutions to the problems as soon as possible.

The Company may involve the intellectual property rights of customers, suppliers and the Company in its business operations from time to time, therefore protection of intellectual property rights is extremely important. The Company adds protective clauses to the contracts entered into with customers and suppliers to safeguard the intellectual property rights whenever it is applicable.

With respect to fair advertising, the Company requires that accurate and true information on the Company's products or services have to be provided with the customers. Hotline and e-mail are also available for customers' enquiries on products and service details in order to provide better before-and-after-sale services.

For the year ended 31 December 2018, the Company had not received any complaints from the regulatory body or consumers regarding product safety, intellectual property rights, and data privacy, nor had it recalled any product due to product safety or health issues.

B.7. Anti-Corruption, Bribery, Extortion, Fraud and Money Laundering

The Company promotes integrity and prevents unethical pursuits throughout its operations and tolerates no corruption or bribery in any form. The Company strictly complies with laws or regulations relating to anti-corruption, bribery, extortion, fraudulent behavior and money-laundering. The Company encourages the reporting of suspected business irregularities and provides clear channels specifically for this purpose. When suspected wrongdoings are identified, such as breach of duty, abuse of power, receiving bribes, staff should report to the Board of the Directors for investigation and verification, and report to the regulator and or to law enforcement authority when necessary.

For the year ended 31 December 2018, the Company had not been involved in any litigation related to corruption, and there had been no complaints about the involvement of its employees in corruption cases.

B.8. Community Investment

With social responsibility in mind, the Company and its subsidiaries have been supporting education, arts and culture, sports, and other charitable activities in many ways. The Company strives to promote social development and progress by contributing to education, charity and other areas:

- Support local Primary Education Schools – with day visits to the manufacturing facility to encourage. children to study Engineering – four visits every year.
- Linked with local colleges – via our Apprenticeship Scheme and two open days.
- Support Local Universities – through two Graduate open days and intern placements.
- Sponsorship of local Sports teams (Football and Rugby) and a local Choir.
- Sponsorship of Annual Education in Business Awards Competition for High Schools.

The Company also encourages and supports its employees to contribute to charities locally and nationally through donations or volunteering. In addition, the Company also created job opportunities in the areas where it operates to help local people develop their careers and enhance the local workforce as a whole. The Company conducts assessment from time to time on how its business activities relate to the interests of the communities where it locates, and to see if certain measures need to be taken to accelerate social progress by pushing forward education, sports, charity and other undertakings, as part of the to be responsible citizens.

On Behalf of the Board

Feng Zhong Yun
Managing Director

Hong Kong, 30 August, 2019

INDEPENDENT AUDITOR'S REPORT

BDO

Tel : +852 2218 8288
Fax: +852 2815 2239
www.bdo.com.hk

25th Floor Wing On Centre
111 Connaught Road Central
Hong Kong

電話：+852 2218 8288
傳真：+852 2815 2239
www.bdo.com.hk

香港干諾道中111號
永安中心25樓

TO THE MEMBERS OF SOUTH SEA PETROLEUM HOLDINGS LIMITED
(incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of South Sea Petroleum Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 50 to 151, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2018, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the 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 HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

KEY AUDIT MATTERS

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

Impairment of inventories in Madagascar
(refer to notes 4(o), 5(b)(v) and 21 to the consolidated financial statements)

As at 31 December 2018, the Group had inventories with carrying amount of US$324,062,000, of which US$305,087,000 belonged to semi-processed mixed-grade graphite in Madagascar.

Management of the Group reviewed the net realisable values of the inventories at the end of the reporting period in accordance with the Group's accounting policies and concluded that there was no impairment of the inventories in Madagascar.

We consider this a key audit matter because the amount of inventories is significant to the consolidated financial statements and judgement is involved in determining whether the carrying amounts of the inventories are recoverable based on the latest invoice prices, sales contracts and current market conditions, and estimates for cost of completion and costs to make the sale for the products.

Our response:
Our key procedures in relation to the management's impairment assessment included:

- Appointing a qualified valuer to have a site visit for the semi-processed mixed grade graphite inventories held in Madagascar and estimate the quantities with carrying amount of US$305,087,000 at 31 December 2018;

- Understanding management's assessment in estimating the net realisable values of the inventories and the internal procedures for making provision to write off or write down inventories to their net realisable values;

- Assessing the accuracy of management's estimates of the net realisable values of the inventories by comparing the latest invoice prices and sales contracts price of the inventories, and management's estimates for cost of completion and costs to make the sale for the products;

- Evaluating, according to the reasonableness of management's estimates with independent valuer for costs of completion and costs necessary to make the sale for the products subsequent to the end of the reporting period, and tracing to the source documents;

- Tracing, on a sample basis, latest invoice prices of the inventories to the relevant sale invoices and contracts; and

KEY AUDIT MATTERS (Continued)

Impairment of inventories in Madagascar (Continued)

Our response: (Continued)

- Evaluating the historical accuracy of the provision assessment of management by comparing the historical estimates to actual selling prices, and cost of completion and cost necessary to make the sale for the products in current year, and tracing, on a sample basis, to the source documents.

Impairment of intangible asset – film production cost

(refer to notes 4(l), 5(b)(vii) and 16 to the consolidated financial statements)

As at 31 December 2018, the carrying value of the Group’s film production cost included in intangible assets, before impairment, amounted to US$12,136,000.

Management of the Company have carried out impairment assessment on the film production cost with reference to a valuation conducted by an independent valuer engaged by the Group based on value-in-use calculation in accordance with the Group’s accounting policies and concluded that there was an impairment of US$7,392,000 as set out in note 16 to the consolidated financial statements.

We consider this a key audit matter because the estimation of the recoverable amount of the film production cost involves significant judgements and assumptions.

Our response:

Our key procedures in relation to the management’s impairment assessment included:

- Evaluating the competence, capability and objectivity of the independent valuer;

- Assessing the appropriateness of the valuation methods applied by the independent valuer;

- Evaluating the assumptions underpinning the discounted cash flow models, which included budgeted box office revenue, revenues from other sources and distribution expenses by comparing them with the future business plan and the historical cashflows incurred in relation to the film;

- Assessing the discount rate used in the discounted cash flow models by checking market data and certain film specific parameters; and

- Performing the sensitivity analysis on the inputs used in the calculation of the value in use.

OTHER INFORMATION IN THE ANNUAL REPORT

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

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

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

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are also responsible for overseeing the Group's financial reporting process. The Audit Committee assists the directors in discharging their responsibility in this regard.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, 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.

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

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

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

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

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

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

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

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

We communicate with 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 directors, 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.

BDO Limited
Certified Public Accountants

Chan Tsz Hung
Practising Certificate no. P06693

Hong Kong, 30 August, 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Continuing operations			
Revenue	*6,7*	**114,874**	62,880
Cost of sales		**(96,897)**	(52,755)
Gross profit		**17,977**	10,125
Other income	*7*	**6,527**	2,308
General and administrative expenses		**(20,057)**	(11,618)
Fair value loss on financial assets at fair value through profit or loss	*19*	**(3,058)**	(1,254)
Other tax		**–**	(1,039)
Profit/(loss) from operating activities	*8*	**1,389**	(1,478)
Finance costs	*9*	**(26)**	(51)
Share of losses of a joint venture, net of tax		**(13)**	–
Profit/(loss) before income tax expense		**1,350**	(1,529)
Income tax expense	*12*	**(2,457)**	(498)
Loss for the year from continuing operations		**(1,107)**	(2,027)
Discontinued operation			
Loss for the year from discontinued operation		**(459)**	(3,579)
Gain/(loss) on disposal of discontinued operation		**8,475**	(1,302)
Profit/(loss) for the year from discontinued operation	*35(a)*	**8,016**	(4,881)
Profit/(loss) for the year		**6,909**	(6,908)
Attributable to:			
Owners of the Company			
Loss for the year from the continuing operations		**(1,107)**	(7,365)
Profit/(loss) for the year from discontinued operation		**8,016**	(2,212)
		6,909	(9,577)
Non-controlling interests			
Profit for the year from discontinued operation		**–**	2,669

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 December 2018

	Notes	2018 US$'000	2017 US$'000
Profit/(loss) for the year		**6,909**	(6,908)
Earnings/(losses) per share from continuing and discontinued operations	*13*	**US cents**	US cents
Basic		**0.14**	(0.25)
Diluted		**0.14**	(0.25)
Losses per share from continuing operations	*13*		
Basic		**(0.02)**	(0.19)
Diluted		**(0.02)**	(0.19)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2018

	2018 US$'000	2017 US$'000
Profit/(loss) for the year	**6,909**	(6,908)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(4,275)**	1,335
Items that will not be reclassified to profit or loss:		
Gain on revaluation of land and buildings	**250**	469
Other comprehensive income for the year	**(4,025)**	1,804
Total comprehensive income for the year	**2,884**	(5,104)
Attributable to:		
Owners of the Company	**2,884**	(7,987)
Non-controlling interests	**–**	2,883
Total comprehensive income for the year	**2,884**	(5,104)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	31 December 2018 US$'000	31 December 2017 US$'000 (restated)	1 January 2017 US$'000 (restated)
Non-current assets				
Fixed assets				
– other property, plant and equipment	*14*	**20,574**	21,999	16,266
– investment properties	*14*	**8,830**	1,856	5,225
		29,404	23,855	21,491
Non-current loan receivable	*23*	**3,587**	–	–
Prepaid lease payments	*15*	**2,501**	2,581	4,563
Intangible assets	*16*	**5,323**	14,784	10,748
Available-for-sale investments		**–**	–	6,293
Interest in a joint venture	*18*	**–**	–	–
Deferred tax assets	*20*	**611**	1,345	1,352
Total non-current assets		**41,426**	42,565	44,447
Current assets				
Inventories	*21*	**324,062**	338,202	340,091
Financial assets at fair value through profit or loss	*19*	**310**	3,691	4,944
Trade receivables	*22*	**23,460**	17,693	13,799
Other receivables, deposits and prepayments	*23*	**21,864**	30,572	64,538
Amount due from a joint venture	*18*	**965**	–	–
Cash and bank balances		**14,369**	10,165	14,117
		385,030	400,323	437,489
Assets classified as held-for-sale	*35(d)(i)*	**–**	1,367	–
Total current assets		**385,030**	401,690	437,489
Current liabilities				
Trade payables	*25*	**15,837**	46,516	99,064
Contract liabilities	*24*	**2,339**	–	–
Other payables and accruals	*26*	**24,028**	7,425	17,578
Obligations under finance leases	*27*	**33**	210	192
Tax payable		**17,313**	15,899	15,676
		59,550	70,050	132,510

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2018

	Notes	**31 December 2018 US$'000**	31 December 2017 US$'000 (restated)	1 January 2017 US$'000 (restated)
Liabilities directly associated with assets classified as held-for-sale	*35(d)(ii)*	**–**	10,118	–
Total current liabilities		**59,550**	80,168	132,510
Net current assets		**325,480**	321,522	304,979
Total assets less current liabilities		**366,906**	364,087	349,426
Non-current liabilities				
Obligations under finance leases	*27*	**–**	35	223
Provisions		**–**	–	3,105
Deferred tax liabilities	*20*	**77**	107	114
Total non-current liabilities		**77**	142	3,442
NET ASSETS		**366,829**	363,945	345,984
Capital and reserves attributable to owners of the Company				
Share capital	*29*	**590,430**	590,430	562,721
Reserves		**(223,607)**	(226,491)	(218,504)
Total equity attributable to owners of the Company		**366,823**	363,939	344,217
Non-controlling interests		**6**	6	1,767
TOTAL EQUITY		**366,829**	363,945	345,984

On behalf of the board of directors

Feng Zhong Yun
Managing Director

Zhang Xue
Executive Director

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2018

	Attributable to owners of the Company						
	Share capital US$'000	**Translation reserve US$'000**	**Revaluation reserve US$'000**	**Accumulated losses US$'000**	**Total US$'000**	**Non-controlling interests US$'000**	**Total equity US$'000**
At 1 January 2018	**590,430**	**1,631**	**4,639**	**(232,761)**	**363,939**	**6**	**363,945**
Profit for the year	**–**	**–**	**–**	**6,909**	**6,909**	**–**	**6,909**
Other comprehensive income for the year	**–**	**(4,275)**	**250**	**–**	**(4,025)**	**–**	**(4,025)**
Total comprehensive income for the year	**–**	**(4,275)**	**250**	**6,909**	**2,884**	**–**	**2,884**
At 31 December 2018	**590,430**	**(2,644)**	**4,889**	**(225,852)**	**366,823**	**6**	**366,829**

	Attributable to owners of the Company						
	Share capital US$'000	Translation reserve US$'000	Revaluation reserve US$'000	Accumulated losses US$'000	Total US$'000	Non-controlling interests US$'000	Total equity US$'000
At 1 January 2017	562,721	771	3,909	(223,184)	344,217	1,767	345,984
Loss for the year	–	–	–	(9,577)	(9,577)	2,669	(6,908)
Other comprehensive income for the year	–	860	730	–	1,590	214	1,804
Total comprehensive income for the year	–	860	730	(9,577)	(7,987)	2,883	(5,104)
Disposal of subsidiary	–	–	–	–	–	(4,644)	(4,644)
Issue of shares upon conversion of convertible debentures	27,709	–	–	–	27,709	–	27,709
At 31 December 2017	590,430	1,631	4,639	(232,761)	363,939	6	363,945

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2018

	Note	2018 US$'000	2017 US$'000
Net cash generated from/(used in) operating activities	*31(a)*	**16,451**	(32,655)
Cash flows from investing activities			
Additions of fixed assets		**(8,032)**	(10,362)
Additions of prepaid lease payments		**(100)**	–
Dividend income received		**17**	15
Cash inflow on disposal of a subsidiary		**600**	4,039
Acquisition of financial assets at fair value through profit or loss		**(1,529)**	–
Receipts from disposal of financial assets at fair value through profit or loss		**1,852**	–
Sale receipts of available-for-sale investment		**–**	6,293
Acquisition of film right		**(1,635)**	(1,796)
Interest received		**3**	5
Proceeds from disposal of property, plant and equipment		**16**	3,426
Capital injection to a joint venture company		**(13)**	–
Net cash (used in)/generated from investing activities		**(8,821)**	1,620
Cash flows from financing activities			
Net proceed from issue of convertible debentures		**–**	27,709
Capital element of finance lease		**(212)**	(170)
Net cash (used in)/generated from financing activities		**(212)**	27,539
Net increase/(decrease) in cash and cash equivalents		**7,418**	(3,496)
Cash and cash equivalents at beginning of the year		**10,165**	14,117
Effect of foreign exchange rates		**(3,214)**	(456)
Cash and cash equivalents at end of the year		**14,369**	10,165

1. CORPORATE INFORMATION

The Company was incorporated in Hong Kong with limited liability. Its principal place of business is situated at Unit 1002, 10/F, Euro Trade Centre, 13-14 Connaught Road Central and 21-23 Des Voeux Road Central, Hong Kong. The Company's securities are listed on The Stock Exchange of Hong Kong Limited for trading (Stock Code: 76).

The Group's businesses consist of (i) production and trading of minerals, primarily graphite, worldwide, (ii) manufacture and sales of electronic products in the United Kingdom, and (iii) development of multi-media production and movie making.

2. BASIS OF PREPARATION

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), Hong Kong Accounting Standards ("HKASs") and Interpretations (hereinafter collectively referred to as the "HKFRS") and the provisions of the Hong Kong Companies Ordinance which concern the preparation of financial statements. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

The measurement basis in the preparation of the consolidated financial statements is historical cost, except for the measurement of land and buildings, and certain financial instruments, which are measured at revalued amount or fair values, as explained in the accounting policies set out below.

The preparation of the consolidated financial statements in conformity with HKFRSs requires the use of certain key assumptions and estimates. It also requires the directors to exercise its judgements in the process of applying the accounting policies. The areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in note 5 to the consolidated financial statements.

The consolidated financial statements are presented in United States dollars ("US$"), which is the same as the functional currency of the Company.

Fair value measurement

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

2. BASIS OF PREPARATION (Continued)

Fair value measurement (Continued)

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

The Group measures the following items at fair value:

- Revalued land and buildings – Other property, plant and equipment (note 14);

- Investment property (note 14); and

- Financial assets at fair value through profit or loss ("FVTPL") (note 19).

For more detailed information in relation to the fair value measurement of the items above, please refer to the applicable notes.

Basis of consolidation

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

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

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

2. BASIS OF PREPARATION (Continued)

Basis of consolidation (Continued)

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

Prior year adjustments

In preparing the consolidated financial statements for the year ended 31 December 2018, the Group identified the needs to make a correction in the previously issued consolidated financial statements for the year ended 31 December 2017.

The correction made included:

– Reclassification of the film production costs from prepayment and other receivables, deposits and prepayment to intangible assets

Consequently, the Group's consolidated statements of financial position as at 31 December 2017 and 31 December 2016 and certain explanatory notes have been restated to reflect these corrections.

Impact on the consolidated statement of financial position as at 31 December 2017:

	As previously reported US$'000	Reclassification adjustment US$'000	As restated US$'000
Intangible assets	4,283	10,501	14,784
Other receivables, deposits and prepayments	41,073	(10,501)	30,572

Impact on the consolidated statement of financial position as at 31 December 2016:

	As previously reported US$'000	Reclassification adjustment US$'000	As restated US$'000
Intangible assets	3,065	7,683	10,748
Other receivables, deposits and prepayments	72,221	(7,683)	64,538

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

(a) Adoption of new or revised HKFRSs – effective 1 January 2018

Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKAS 28, Investments in Associates and Joint Ventures
Annual Improvements to HKFRSs 2014-2016 Cycle	Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards
HKFRS 9	Financial Instruments
HKFRS 15	Revenue from Contracts with Customers
Amendments to HKFRS 15	Revenue from Contracts with Customers (Clarifications to HKFRS 15)
Amendments to HKAS 40	Transfers of Investment Property
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKAS 28, Investments in Associates and Joint Ventures

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 28, Investments in Associates and Joint Ventures clarifying that a Venture Capital organisation's permissible election to measure its associates or joint ventures at fair value is made separately for each associate or joint venture.

The adoption of the amendments has no impact on these consolidated financial statements as the Group is not a venture capital organisation.

Annual Improvements to HKFRSs 2014-2016 Cycle – Amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 1, First-time Adoption of Hong Kong Financial Reporting Standards, removing transition provision exemptions relating to accounting periods that had already passed and were therefore no longer applicable.

The adoption of these amendments has no impact on these financial statements as the periods to which the transition provision exemptions related have passed.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments

HKFRS 9 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: (1) classification and measurement; (2) impairment and (3) hedge accounting. The adoption of HKFRS 9 from 1 January 2018 has resulted in changes in accounting policies of the Group and the amounts recognised in the consolidated financial statements.

(i) Classification and measurement of financial assets and financial liabilities

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at FVTPL, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities. However, it eliminates the previous HKAS 39 categories for financial assets of held to maturity financial assets, loans and receivables and available-for-sale financial assets. The adoption of HKFRS 9 has no material impact on the Group's accounting policies related to financial liabilities. The impact of HKFRS 9 on the Group's classification and measurement of financial assets is set out below.

Under HKFRS 9, except for certain trade receivables (that the trade receivables do not contain a significant financing component in accordance with HKFRS 15), an entity shall, at initial recognition, measure a financial asset at its fair value plus, in the case of a financial asset not at FVTPL, transaction costs. A financial asset is classified as: (i) financial assets at amortised cost ("amortised costs"); (ii) financial assets at fair value through other comprehensive income ("FVOCI"); or (iii) FVTPL. The classification of financial assets under HKFRS 9 is generally based on two criteria: (i) the business model under which the financial asset is managed and (ii) its contractual cash flow characteristics (the "solely payments of principal and interest" criterion, also known as "SPPI criterion"). Under HKFRS 9, embedded derivatives is no longer required to be separated from a host financial asset. Instead, the hybrid financial instrument is assessed as a whole for the classification.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial assets and financial liabilities (Continued)

A financial asset is measured at amortised cost if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet SPPI criterion.

A debt investment is measure at FVOCI if it meets both of the following conditions and it has not been designated as at FVTPL:

- It is held within a business model whose objective is achieved by collecting contractual cash flows and selling financial assets; and

- The contractual terms of the financial asset give rise on specified dates to cash flows that meet SPPI criterion.

On initial recognition of an equity investment that is not held for trading, the Group could irrecoverably elect to represent subsequent changes in the investment's fair value in other comprehensive income. The election is made on an investment-by-investment basis. All other financial assets not classified at amortised cost or FVOCI as described above are classified as FVTPL. This includes all derivative financial assets. On initial recognition, the Group may irrecoverably designate a financial asset that otherwise meets the requirements to be measured at amortised cost or FVOCI at FVTPL if doing so eliminates or significantly reduces an accounting mismatch that would otherwise arise.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial assets and financial liabilities (Continued)

The following accounting policies would be applied to the Group's financial assets:

FVTPL	FVTPL is subsequently measured at fair value. Changes in fair value, dividends and interest income are recognised in profit or loss.
Amortised cost	Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.
FVOCI (debt instruments)	Debt investments at FVOCI are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.
FVOCI (equity instruments)	Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

(i) Classification and measurement of financial assets and financial liabilities (Continued)

The following table summarises the original measurement categories under HKAS 39 and the new measurement outgoing under HKFRS 9 for each class of the Group's financial assets as at 1 January 2018:

Financial assets	Original classification under HKAS 39	New classification under HKFRS 9	Carrying amount as at 1 January 2018 under HKAS 39 US$'000	Carrying amount as at 1 January 2018 under HKFRS 9 US$'000
Equity investments	Held-for-trading	FVTPL	3,691	3,691
Trade receivables	Loans and receivables	Amortised cost	17,693	17,693
Other receivables and deposits	Loans and receivables	Amortised cost	18,152	18,152
Cash and bank balances	Loans and receivables	Amortised cost	10,165	10,165

The adoption of HKFRS 9 did not have a significant impact on the classification and measurement of the Group's financial assets. Trade receivables, other receivables and deposits are held to collect contractual cash flows and are expected to give rise to cash flows representing solely payments of principal and interest. The Group analysed the contractual cash flow characteristics of those instruments and concluded that they meet the criteria for amortised cost measurement under HKFRS 9. Therefore, reclassification for these instruments is not required. These financial assets continue to be measured at amortised cost and are subsequently measured using effective interest rate method.

Equity investments are continued to be measured at FVTPL.

There was no impact on the Group's accounting for financial liabilities as at 1 January 2018, as the new requirement under HKFRS 9 only affect the accounting for financial liabilities that are designated at FVTPL of which the Group did not have any as of that date.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets

The adoption of HKFRS 9 has changed the Group's impairment model by replacing the HKAS 39 "incurred loss model" to the "expected credit losses ("ECLs") model". HKFRS 9 requires the Group to recognise ECLs for trade receivables and financial assets at amortised cost earlier than HKAS 39. Cash and cash equivalents are subject to ECLs model but the impairment was immaterial for the current year.

Under HKFRS 9, the losses allowances are measured on either of the following bases: (1) 12-months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument.

Measurement of ECLs

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. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. The 12-months ECLs is the portion of the lifetime ECLs that results from default events on a financial instrument that are possible within 12 months after the reporting date. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECLs, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information and analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Measurement of ECLs (Continued)

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The Group considers a financial asset to be in default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

Presentation of ECLs

Loss allowances for financial assets measured at amortised cost are deducted from the gross carrying amount of the assets.

Impact of the ECLs model

(i) Impairment of trade receivables

As mentioned above, the Group applies the HKFRS 9 simplified approach to measure ECLs which recognises lifetime ECLs for all trade receivables. To measure the ECLs, trade receivables have been grouped based on shared credit risk characteristics and the days past due. For trade receivables as at 1 January 2018, the ECLs rate on trade receivables was assessed to be minimal and no provision was made.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 9 – Financial Instruments (Continued)

(ii) Impairment of financial assets (Continued)

Impact of the ECLs model (Continued)

(ii) Impairment of other financial assets at amortised cost

All the Group's deposits and other receivables are considered to have low credit risk since initial recognition, therefore the loss allowance was limited to 12-month ECLs. The identified impairment loss was immaterial.

(iii) Hedge accounting

Hedge accounting under HKFRS 9 has no impact on the Group as the Group does not apply hedge accounting in its hedging relationships.

(iv) Transition

The Group has applied the transitional provision in HKFRS 9 such that HKFRS 9 was generally adopted without restating comparative information. The reclassification and the adjustments, if any, arising from the new ECLs rules are therefore not reflected in the statement of financial position as at 31 December 2017, but are recognised in the statement of financial position on 1 January 2018. This mean that differences in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in retained earnings and reserves as at 1 January 2018. Accordingly, the information presented for 2017 does not reflect the requirements of HKFRS 9 but rather those of HKAS 39.

The following assessments have been made on basis of the facts and circumstances that existed at the date of initial application of HKFRS 9 (the "DIA"):

- The determination of the business model within which a financial asset is held; and
- The designation and revocation of previous designations of certain financial assets as measured at FVTPL; and
- The designation of certain investments in equity instruments not held for trading to be classified as at FVTPL.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers

HKFRS 15 supersedes HKAS 11 Construction Contracts, HKAS 18 Revenue and related interpretations. HKFRS 15 has established a five-step model to account for revenue arising from contracts with customers.

Step 1: Identify the contract(s) with a customer
Step 2: Identify the performance obligations in the contract
Step 3: Determine the transaction price
Step 4: Allocate the transaction price to each performance obligations
Step 5: Recognise revenue when each performance obligation is satisfied

Under HKFRS 15, revenue is recognised at the amount that reflects the consideration to which an entity expects to be entitled in exchange for transferring the control of goods or services to a customer.

The Group has adopted HKFRS 15 using the cumulative effect method without practical expedients. The Group has recognised the cumulative effect of initially applying HKFRS 15 as an adjustment to the opening balance of retained earnings at the date of initial application (that is, 1 January 2018). As a result, the financial information presented for 2017 has not been restated.

The details of the nature and effect of the changes on application of HKFRS 15 are set out below:

Presentation of contract liabilities

Under HKFRS 15, a contract liability, rather than a payable, is recognised when a customer pays consideration, or is contractually required to pay consideration and the amount is already due, before the Group recognises the related revenue. For a single contract with the customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

Previously, contract balances related to advance received from customers were presented in the consolidated statement of financial position under "Other payables and accruals".

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

To reflect these changes in presentation, the Group has made the reclassification adjustment as at 1 January 2018. As a result of the adoption of HKFRS 15, no advance received from customers as at 1 January 2018 is classified as contract liabilities.

The following table summarised the impact of adopting HKFRS 15 on the Group's consolidated statement of financial position as at 31 December 2018:

	Before adoption of HKFRS 15 US$'000	Impact of adoption of HKFRS 15 as at 31 December 2018 US$'000	As reported US$'000
Other payables and accruals	26,367	(2,339)	24,028
Contract liabilities	–	2,339	2,339

There was no material impact on the Groups' consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income and consolidated statement of cash flow for the year ended 31 December 2018.

Details of the new significant accounting policies and the nature of the changes to previous accounting policies in relation to the Group's various goods and services are set out below:

Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Sales of minerals	Customers obtain control of the minerals products when the goods are delivered to and have been accepted based on the shipping terms. Revenue is recognised upon when the customers accepted the minerals products. There is generally only one performance obligation. Invoices are usually payable within 90-120 days.	Impact HKFRS 15 did not result in significant impact on the Group's accounting policies.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

HKFRS 15 Revenue from Contracts with Customers (Continued)

Product/service	Nature of the goods or services, satisfaction of performance obligations and payment terms	Nature of change in accounting policy and impact on 1 January 2018
Manufacture and sales of electronic products	Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 90 days. Right of return Some of the Group's contracts with customers from the sale of products provide customers a right of return (a right to exchange another product). These rights of return do not allow the returned goods to be refunded in cash.	Right of return Under HKAS 18, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provided that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. Under HKFRS 15, right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. Impact The directors of the Company considered that the financial impact of the returned goods is minimum, with reference to the historical returned goods pattern and the management assessment of possible return of goods.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(a) Adoption of new or revised HKFRSs – effective 1 January 2018 (Continued)

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

The adoption of these amendments has no impact on these financial statements as the Group had not previously adopted HKFRS 15 and took up the clarifications in this, its first, year.

Amendments to HKAS 40, Investment Property – Transfers of Investment Property

The amendments clarify that to transfer to or from investment properties there must be a change in use and provides guidance on making this determination. The clarification states that a change of use will occur when a property meets, or ceases to meet, the definition of investment property and there is supporting evidence that a change has occurred.

The amendments also re-characterise the list of evidence in the standard as a non-exhaustive list, thereby allowing for other forms of evidence to support a transfer.

The adoption of these amendments has no impact on these financial statements as the clarified treatment is consistent with the manner in which the Group has previously assessed transfers.

HK(IFRIC)-Int 22 – Foreign Currency Transactions and Advance Consideration

The interpretation provides guidance on determining the date of the transaction for determining an exchange rate to use for transactions that involve advance consideration paid or received in a foreign currency and the recognition of a non-monetary asset or non-monetary liability. The interpretation specifies that the date of the transaction for the purpose of determining the exchange rate to use on initial recognition of the related asset, expense or income (or part thereof) is the date on which the entity initially recognises the non-monetary asset or non-monetary liability arising from the payment or receipt of advance consideration.

The adoption of these amendments has no impact on these financial statements as the Group has not paid or received advance consideration in a foreign currency.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective

The following new or revised HKFRSs, potentially relevant to the Group's financial statements, have been issued, but are not yet effective and have not been early adopted by the Group. The Group's current intention is to apply these changes on the date they become effective.

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

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 business combinations where the acquisition date is on or after 1 January 2020
4 The amendments were originally intended to be effective for periods beginning on or after 1 January 2017. The effective date has now been deferred/removed. Early application of the amendments continue to be permitted.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 – Leases

HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

Furthermore, extensive disclosures are required by HKFRS 16.

As at 31 December 2018, the Group has non-cancellable operating lease commitments of US$475,000 as disclosed in note 32. A preliminary assessment indicates that these arrangements will meet the definition of a lease. Upon application of HKFRS 16, the Group will recognise a right-of-use asset and a corresponding liability in respect of all these leases unless they qualify for low value or short-term leases.

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

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

HKFRS 16 – Leases (Continued)

The application of new requirements may result in changes in measurement, presentation and disclosure as indicated above. The Group intends to elect the practical expedient to apply HKFRS 16 to contracts that were previously identified as leases applying HKAS 17 and HK(IFRIC)-Int 4 Determining whether an Arrangement contains a Lease and not apply this standard to contracts that were not previously identified as containing a lease applying HKAS 17 and HK(IFRIC)-Int 4. Therefore, the Group will not reassess whether the contracts are, or contain a lease which already existed prior to the date of initial application. Furthermore, the Group intends to elect the modified retrospective approach for the application of HKFRS 16 as lessee and will recognise the cumulative effect of initial application to opening retained earnings without restating comparative information.

Except as described above, the directors of the Company anticipate that the application of the new or amended HKFRSs below will have no material impact on the consolidated financial statements.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKFRS 3 "Business Combinations"

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKFRS 3 which clarifies that when a joint operator of a business obtains control over a joint operation, this is a business combination achieved in stages and the previously held equity interest should therefore be remeasured to its acquisition date fair value.

Annual Improvements to HKFRSs 2015-2017 Cycle – Amendments to HKAS 12 "Income Taxes"

The amendments issued under the annual improvements process make small, non-urgent changes to standards where they are currently unclear. They include amendments to HKAS 12 which clarify that all income tax consequences of dividends are recognised consistently with the transactions that generated the distributable profits, either in profit or loss, other comprehensive income or directly in equity.

Amendments to HKAS 1 and HKAS 8 – Definition of Material

The amendments clarify the definition of material and align the definition used across the HKFRSs. 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, which provide financial information about a specific reporting entity. Materiality depends on the nature or magnitude of information, or both. An entity assesses whether information, either individually or in combination with other information, is material in the context of its financial statements taken as a whole.

3. ADOPTION OF HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") (Continued)

(b) New or revised HKFRSs that have been issued but are not yet effective (Continued)

Amendments to HKFRS 3 – Definition of a Business

The amendments clarify the definition of a business, with the objective of assisting entities to determine whether a transaction should be accounted for as a business combination or as an asset acquisition. An entity shall apply these amendments to business combinations for which the acquisition date is on or after the beginning of the first annual reporting period beginning on or after 1 January 2020 and to asset acquisitions that occur on or after the beginning of that period.

Earlier application of these amendments is permitted, including in annual reporting periods beginning before 18 January 2019 (the date of issuance of these amendments). If an entity applies these amendments for an earlier period, it shall disclose that fact.

Amendments to HKFRS 9 – Prepayment Features with Negative Compensation

The amendments clarify that prepaid financial assets with negative compensation can be measured at amortised cost or at FVOCI if specified conditions are met instead of at FVTPL.

HK(IFRIC)-Int 23 – Uncertainty over Income Tax Treatments

The interpretation supports the requirements of HKAS 12 "Income Taxes" by providing guidance over how to reflect the effects of uncertainty in accounting for income taxes. Under the interpretation, the entity shall determine whether to consider each uncertain tax treatment separately or together based on which approach better predicts the resolution of the uncertainty. The entity shall also assume the tax authority will examine amounts that it has a right to examine and have full knowledge of all related information when making those examinations. If the entity determines it is probable that the tax authority will accept an uncertain tax treatment, then the entity should measure current and deferred tax in line with its tax filings. If the entity determines it is not probable, then the uncertainty in the determination of tax is reflected using either the "most likely amount" or the "expected value" approach, whichever better predicts the resolution of the uncertainty.

Amendments to HKAS 28 – Long-term Interests in Associates and Joint Ventures

The amendment clarifies that HKFRS 9 applies to long-term interests ("LTI") in associates or joint ventures which form part of the net investment in the associates or joint ventures and stipulates that HKFRS 9 is applied to these LTI before the impairment losses guidance within HKAS 28.

Amendments to HKFRS 10 and HKAS 28 – Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

The amendments clarify the extent of gains or losses to be recognised when an entity sells or contributes assets to its associate or joint venture. When the transaction involves a business the gain or loss is recognised in full, conversely when the transaction involves assets that do not constitute a business the gain or loss is recognised only to the extent of the unrelated investors' interests in the joint venture or associate.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Business combinations

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred 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. Acquisition-related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

- deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 Income Taxes and HKAS 19 Employee Benefits respectively;

- liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 Share-based Payment at the acquisition date; and

- assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 Non-current Assets Held for sale and Discontinued Operations are measured in accordance with that Standard.

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after re-assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another HKFRS.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(a) Business combinations (Continued)

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another HKFRS.

(b) Subsidiaries

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:

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

(ii) rights arising from other contractual arrangements; and

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

The results of subsidiaries are included in the Company's statement of profit or loss to the extent of dividends received and receivable. The Company's investments in subsidiaries are stated at cost less any impairment losses.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Joint arrangements

The Group is a party to a joint arrangement where there is a contractual arrangement that confers joint control over the relevant activities of the arrangement to the group and at least one other party. Joint control is assessed under the same principles as control over subsidiaries.

The Group classifies its interests in joint arrangements as either:

- Joint ventures: where the group has rights to only the net assets of the joint arrangement; or

- Joint operations: where the group has both the rights to assets and obligations for the liabilities of the joint arrangement.

In assessing the classification of interests in joint arrangements, the Group considers:

- The structure of the joint arrangement;

- The legal form of joint arrangements structured through a separate vehicle;

- The contractual terms of the joint arrangement agreement; and

- Any other facts and circumstances (including any other contractual arrangements).

Joint ventures are accounted for using the equity method whereby they are initially recognised at cost and thereafter, their carrying amount are adjusted for the Group's share of the post-acquisition change in the joint ventures' net assets except that losses in excess of the Group's interest in the joint venture are not recognised unless there is an obligation to make good those losses.

Profits and losses arising on transactions between the Group and its joint ventures are recognised only to the extent of unrelated investors' interests in the joint venture. The investor's share in the joint venture's profits and losses resulting from these transactions is eliminated against the carrying value of the joint venture. Where unrealised losses provide evidence of impairment of the asset transferred they are recognised immediately in profit or loss.

Any premium paid for an investment in a joint venture above the fair value of the Group's share of the identifiable assets, liabilities and contingent liabilities acquired is capitalised and included in the carrying amount of the investment in joint venture. Where there is objective evidence that the investment in a joint venture has been impaired the carrying amount of the investment is tested for impairment in the same way as other non-financial assets.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Joint arrangements (Continued)

The Group accounts for its interests joint operations by recognising its share of assets, liabilities, revenues and expenses in accordance with its contractually conferred rights and obligations.

The Company's interests in joint ventures are stated at cost less impairment losses, if any. Results of joint ventures are accounted for by the Company on the basis of dividends received and receivable.

(d) Goodwill

Goodwill arising on an acquisition of a business is carried at cost less any accumulated impairment losses.

For the purposes of impairment testing, goodwill is allocated to each of the cash-generating units ("CGUs"), or groups of CGUs, that is expected to benefit from the synergies of the combination.

A CGUs to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGUs to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount of the CGUs is less than the carrying amount of the unit, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit, and then to the other assets of the unit pro rata on the basis of the carrying amount of each asset in the unit. Any impairment loss recognised for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant CGUs, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

(e) Oil properties

The successful efforts method of accounting is followed for oil exploration and development costs. The initial acquisition costs of oil properties and the costs of drilling and equipping successful exploratory wells are capitalised. Impairment of initial acquisition costs is recognised based on exploratory experience and management judgment. Exploratory drilling costs are capitalised pending determination of proven reserves. The costs of exploration wells classified as unsuccessful and all other exploration costs, as incurred, are included in the profit or loss. All development costs are capitalised. Maintenance and repairs are included in the profit or loss while renewals and betterments, which extend the economic lives of assets, are capitalised.

(f) Depreciation, depletion and amortisation of oil properties

The capitalised costs of proven oil properties, are depleted/depreciated using the unit of production method based on estimated proven oil reserves. Plant and equipment are depreciated at rates from 10% to 50% per annum.

The capitalised costs of significant unproven oil properties are assessed regularly to determine whether an impairment in value has occurred, in which case such amount is included in the profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Land and buildings

Land and buildings held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at their revalued amount, being the fair value at the date of revaluation less any subsequent accumulated depreciation and impairment losses. Revaluations are performed by qualified valuers with sufficient regularity such that the carrying amount does not differ materially from that which would be determined using fair values at the end of reporting period.

Any revaluation increase arising on revaluation of land and buildings is credited to the revaluation reserve, except to the extent that it reverses a revaluation decrease of the same asset previously recognised as an expense, in which case the increase is credited to the consolidated statement of profit or loss to the extent of the decrease previously charged. A decrease in net carrying amount arising on revaluation of an asset is dealt with as an expense to the extent that it exceeds the balance, if any, on the revaluation reserve relating to a previous revaluation of that asset.

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

To the extent the allocation of the lease payments can be made reliably, interest in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statement of financial position and is amortised over the lease term on a straight-line basis.

(h) Investment properties

Investment properties are land and buildings which are owned or held under a leasehold interest to earn rental income and/or for capital appreciation. They are stated in the consolidated statement financial position at cost less accumulated depreciation and impairment, if any.

(i) Fixed assets

Fixed assets other than oil properties, freehold land and buildings are stated at cost less accumulated depreciation and impairment loss, if applicable. The cost of an asset 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 the fixed assets have been put into operation, such as repairs and maintenance, is normally charged to the profit or loss in the period in which it is incurred. In situations where it can be clearly demonstrated that the expenditure has resulted in an increase in the future economic benefits expected to be obtained from the use of the fixed asset, the expenditure is capitalised as an additional cost of that asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Fixed assets (Continued)

Depreciation is calculated on the straight-line basis to write off the cost of each asset over its estimated useful life. The principal annual rates used for this purpose are as follows:

Freehold land	Nil
Buildings	10 to 36 years
Investment properties	10 to 36 years
Machinery and equipment	10% – 20%
Furniture, fittings and computer	14% – 50%
Motor vehicles	10% – 30%

An item of fixed asset is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in the consolidated statement of profit or loss in the year in which the item is derecognised.

(j) Construction in progress

Construction in progress includes fixed assets in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of fixed assets when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended uses.

(k) Intangible assets (other than goodwill)

Intangible assets acquired separately are initially recognised at cost. The cost of intangible assets acquired in a business combination is fair value at the date of acquisition. Subsequently, intangible assets with finite useful lives are carried at cost less accumulated amortisation and accumulated impairment losses.

(i) Amortisation is provided on a straight-line basis over their useful lives as follows. Intangible assets with indefinite useful lives are carried at cost less any accumulated impairment losses. The amortisation expense is recognised in profit or loss and included in administrative expenses.

Customer contract	7 years

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(k) Intangible assets (other than goodwill) (Continued)

(ii) Impairment

Intangible assets with finite lives are tested for impairment when there is an indication that an asset may be impaired. Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment annually, irrespective of whether there is any indication that they may be impaired. Intangible assets are tested for impairment by comparing their carrying amounts with their recoverable amounts (see note 4(x)).

If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount.

An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount, in which case the impairment loss is treated as revaluation decrease to the extent of its revaluation surplus.

(l) Film rights

Film rights are rights acquired or licensed from outsiders for exhibition and other exploitation of the films.

Film rights are stated at cost less accumulated amortisation and impairment losses. Amortisation is calculated using the straight-line method to allocate the cost of film over their estimated useful lives which are determined based on individual title basis for two years after the showing of the respective film.

(m) A. Financial instruments (accounting policies applied from 1 January 2018)

(i) Financial assets

A financial asset (unless it is a trade receivable without a significant financing component) is initially measured at fair value plus, for an item not at FVTPL, transaction costs that are directly attributable to its acquisition or issue. A trade receivable without a significant financing component is initially measured at the transaction price.

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 market place.

Financial assets with embedded derivatives are considered in their entirely when determining whether their cash flows are solely payment of principal and interest.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) A. Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(i) Financial assets (Continued)

Debt instruments

Subsequent measurement of debt instruments depends on the Group's business model for managing the asset and the cash flow characteristics of the asset. There are three measurement categories into which the Group classifies its debt instruments:

Amortised cost: Assets that are held for collection of contractual cash flows where those cash flows represent solely payments of principal and interest are measured at amortised cost. Financial assets at amortised cost are subsequently measured using the effective interest rate method. Interest income, foreign exchange gains and losses and impairment are recognised in profit or loss. Any gain on derecognition is recognised in profit or loss.

FVOCI: Assets that are held for collection of contractual cash flows and for selling the financial assets, where the assets' cash flows represent solely payments of principal and interest, are measured at FVOCI. Debt investments at fair value through other comprehensive income are subsequently measured at fair value. Interest income calculated using the effective interest rate method, foreign exchange gains and losses and impairment are recognised in profit or loss. Other net gains and losses are recognised in other comprehensive income. On derecognition, gains and losses accumulated in other comprehensive income are reclassified to profit or loss.

FVTPL: Financial assets at FVTPL include financial assets held for trading, financial assets designated upon initial recognition at FVTPL, or financial assets mandatorily required to be measured at fair value. Financial assets are classified as held for trading if they are acquired for the purpose of selling or repurchasing in the near term. Derivatives, including separated embedded derivatives, are also classified as held for trading unless they are designated as effective hedging instruments. Financial assets with cash flows that are not solely payments of principal and interest are classified and measured at FVTPL, irrespective of the business model. Notwithstanding the criteria for debt instruments to be classified at amortised cost or at FVOCI, as described above, debt instruments may be designated at FVTPL on initial recognition if doing so eliminates, or significantly reduces, an accounting mismatch.

Equity instruments

On initial recognition of an equity investment that is not held for trading, the Group could irrevocably elect to present subsequent changes in the investment's fair value in other comprehensive income. This election is made on an investment-by-investment basis. Equity investments at FVOCI are measured at fair value. Dividend income are recognised in profit or loss unless the dividend income clearly represents a recovery of part of the cost of the investments. Other net gains and losses are recognised in other comprehensive income and are not reclassified to profit or loss. All other equity instruments are classified as FVTPL, whereby changes in fair value, dividends and interest income are recognised in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) A. Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(ii) Impairment loss on financial assets

The Group recognises loss allowances for expected credit loss ("ECL") on trade receivables and financial assets measured at amortised cost. The ECLs are measured on either of the following bases: (1) 12 months ECLs: these are the ECLs that result from possible default events within the 12 months after the reporting date: and (2) lifetime ECLs: these are ECLs that result from all possible default events over the expected life of a financial instrument. The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive. The shortfall is then discounted at an approximation to the assets' original effective interest rate.

The Group has elected to measure loss allowances for trade receivables using HKFRS 9 simplified approach and has calculated ECLs based on lifetime ECLs. The Group has established a provision matrix that is based on the Group's historical credit loss experience, adjusted for forward-looking factors specific to the debtors and the economic environment.

For other debt financial assets, the ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs.

When determining whether the credit risk of a financial asset has increased significantly since initial recognition and when estimating ECL, the Group considers reasonable and supportable information that is relevant and available without undue cost or effort. This includes both quantitative and qualitative information analysis, based on the Group's historical experience and informed credit assessment and including forward-looking information.

The Group assumes that the credit risk on a financial asset has increased significantly if it is more than 30 days past due, unless reasonable and supportable information demonstrate the otherwise.

The Group considers a financial asset to be credit-impaired when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless reasonable and supportable information demonstrate the otherwise.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) A. Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(ii) Impairment loss on financial assets (Continued)

The Group considers a financial asset to be default when: (1) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held); or (2) the financial asset is more than 90 days past due, unless reasonable and supportable information demonstrate the otherwise.

Interest income on credit-impaired financial assets is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset. For non credit-impaired financial assets interest income is calculated based on the gross carrying amount.

(iii) Financial liabilities

The Group classifies its financial liabilities, depending on the purpose for which the liabilities were incurred. Financial liabilities at FVTPL are initially measured at fair value and financial liabilities at amortised costs are initially measured at fair value, net of directly attributable costs incurred.

Financial liabilities at amortised cost

Financial liabilities at amortised cost including trade payables, other payables and accruals, amounts due to related companies and obligations under finance lease are subsequently measured at amortised cost, using the effective interest method. The related interest expense is recognised in profit or loss.

Gains or losses are recognised in profit or loss when the liabilities are derecognised as well as through the amortisation process.

(iv) Convertible debentures

The component of convertible debentures that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debentures; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) A. Financial instruments (accounting policies applied from 1 January 2018) (Continued)

(iv) Convertible debentures (Continued)

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the profit or loss.

(v) Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial asset or liability, or where appropriate, a shorter period.

(vi) Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

(vii) Derecognition

The Company derecognises a financial asset when the contractual rights to the future cash flows in relation to the financial asset expire or when the financial asset has been transferred and the transfer meets the criteria for derecognition in accordance with HKFRS 9.

Financial liabilities are derecognised when the obligation specified in the relevant contract is discharged, cancelled or expired.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) B. Financial Instruments (accounting policies applied until 31 December 2017)

(i) *Investments and other financial assets*

Financial assets in the scope of HKAS 39 are classified as financial assets at FVTPL, loans and receivables, and available-for-sale financial assets, as appropriate. When financial assets are recognised initially, they are measured at fair value, plus, in the case of investments not at FVTPL, directly attributable transaction costs.

The Group determines the classification of its financial assets after initial recognition and, where allowed and appropriate, re-evaluates this designation at the balance sheet date.

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.

(ii) *Financial assets at FVTPL*

Financial assets at FVTPL include financial assets held for trading. Financial assets are classified as held for trading if they are acquired for the purpose of sale in the near term.

Gains or losses on investments held for trading are recognised in profit or loss. The net fair value gain or loss recognised in the profit or loss does not include any dividends on these financial assets, which are recognised in accordance with the policy set out for "Revenue recognition" below.

(iii) *Loans and receivables*

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are subsequently carried at amortised cost using the effective interest method less any allowance for impairment. Amortised cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognised in the profit or loss when the loans and receivables are derecognised or impaired, as well as through the amortisation process.

(iv) *Trade and other receivables*

Trade and other receivables are recognised initially at fair value and subsequently measured at amortised cost using the effective interest method, less provision for impairment. A provision for impairment of trade and other receivables is established when there is objective evidence that the Group will not be able to collect all amounts due according to the original terms of receivables. The amount of the provision is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the effective interest rate. The amount of the provision is recognised in the profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) B. Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(v) Cash equivalents

Cash equivalents comprise cash at banks and on hand, net of outstanding bank overdrafts, which are repayable on demand, and short term highly liquid investments which are readily convertible into known amounts of cash and which were within three months of maturity when acquired.

(vi) Impairment of financial assets other than financial assets at fair value through profit or loss

For unquoted equity securities and current receivables carried at costs, the impairment loss is measured as the difference between the carrying amounts of the financial assets and the estimated future cash flow, discounted at the current market rate of return for a similar financial asset where the effect of discounting is material. Impairment losses for current receivables are reversed if in a subsequent period the amount of the impairment loss decreases. Impairment losses for equity securities are not reversed.

(vii) Trade payable

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

(viii) Convertible debentures

The component of convertible debentures that exhibits characteristics of a liability is recognised as a liability in the statement of financial position, net of transaction costs. On issuance of convertible debentures, the fair value of the liability component is determined using a market rate for an equivalent non-convertible debentures; and this amount is carried as a long term liability on the amortised cost basis until extinguished on conversion or redemption. The remainder of the proceeds is allocated to the conversion option that is recognised and included in shareholders' equity, net of transaction costs. The carrying amount of the conversion option is not remeasured in subsequent years. Transaction costs are apportioned between the liability and equity components of the convertible debentures based on the allocation of proceeds to the liability and equity components when the instruments are first recognised.

If the conversion option of convertible bonds exhibits characteristics of an embedded derivative, it is separated from its liability component. On initial recognition, the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs are apportioned between the liability and derivative components of the convertible bonds based on the allocation of proceeds to the liability and derivative components when the instruments are initially recognised. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in the profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) B. Financial Instruments (accounting policies applied until 31 December 2017) (Continued)

(ix) Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the statement of financial position if, and only 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.

(n) Leasing

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

(i) The Group as lessor

Amounts due from lessees under finance leases are recorded as receivables at the amount of the Group's net investment in the leases. Finance lease income is allocated to accounting periods so as to reflect a constant periodic rate of return on the Group's net investment outstanding in respect of the leases.

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

(ii) The Group as lessee

Assets held under finance leases are initially recognised as assets at their fair value or, if lower, the present value of the minimum lease payments. The corresponding lease commitment is shown as a liability. Lease payments are analysed between capital and interest. The interest element is charged to profit or loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

The total rentals payable under the operating leases are recognised in profit or loss on a straight-line basis over the lease term. Lease incentives received are recognised as an integrated part of the total rental expense, over the term of the lease.

The land and buildings elements of property leases are considered separately for the purposes of lease classification.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) Inventories

Inventories are initially recognised at cost, and subsequently at the lower of cost and net realisable value. Cost comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition. Cost is calculated using the weighted average method/first-in first out method. Net realisable value represents the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

(p) A. Revenue recognition (accounting policies applied from 1 January 2018)

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, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Depending on the terms of the contract and the laws that apply to the contract, control of the goods or service may be transferred over time or at a point in time. Control of the goods or service is transferred over time if the Group's performance:

- provides all of the benefits received and consumed simultaneously by the customer;
- creates or enhances an asset that the customer controls as the Group performs; or
- does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

If control of the goods or services transfers over time, revenue is recognised over the period of the contract by reference to the progress towards complete satisfaction of that performance obligation. Otherwise, revenue is recognised at a point in time when the customer obtains control of the goods or service.

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 amounts receivable, discounted using the discount rate that would be reflected in a separate financing transaction between the Group and the customer at contract inception./Where the contract contains a financing component which provides a significant financing benefit to the Group, revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. For contracts where the period between the payment 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.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) A. Revenue recognition (accounting policies applied from 1 January 2018) (Continued)

(i) *Sales of minerals*

Customers obtain control of the minerals products when the goods are delivered to and have been accepted based on the shipping terms. Revenue is recognised upon when the customers accepted the minerals products. There is generally only one performance obligation. Invoices are usually payable within 90-120 days.

(ii) *Manufacture and sales of electronic products*

Customers obtain control of the products when the goods are delivered to and have been accepted. Revenue is thus recognised upon when the customers accepted the products. There is generally only one performance obligation. Invoices are usually payable within 90 days.

Some of the Group's contracts with customers from the sale of products provide customers a right of return (a right to exchange another product). These rights of return do not allow the returned goods to be refunded in cash. The right of return gives rise to variable consideration. The variable consideration is estimated at contract inception and constrained until the associated uncertainty is subsequently resolved. The application of the constraint on variable consideration increases the amount of revenue that will be deferred. In addition, a refund liability and a right to recover returned goods assets are recognised. In the comparative period, revenue for these contracts was recognised when a reasonable estimate of the returns could be made, provide that all other revenue recognition criteria are met. If a reasonable estimate could not be made, such revenue would be deferred until the return period lapsed or a reasonable estimate could be made. As a result of the change in accounting policy, the adoption of HKFRS 15 does not result in significant impact on the Group's accounting policies, as an exchange by customers of one product for another of the same type, quality, condition and price is not considered a return for the purposes of applying HKFRS 15.

(iii) *Other income*

Rental income under operating leases is recognised on a straight-line basis over the term of the relevant lease.

Interest income, on an accrual basis using the effective interest method by applying the rate that discounts the estimated future cash receipts through the expected life of the financial instrument to the net carrying amount of the financial asset.

Dividend income is recognised when the right to receive the dividend is established.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) B. Revenue recognition (accounting policies applied until 31 December 2017)

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

(a) Revenue from sale of goods is recognised when the goods are delivered and title has passed.

(b) Interest income is recognised as it accrues using the effective interest method.

(c) Rental income is recognised on the straight-line basis over the lease terms.

(d) Service income is recognised when services are rendered.

(e) Dividend income from investments is recognised when the shareholders' rights to receive dividends have been established.

(q) Contract liabilities (accounting policies applied from 1 January 2018)

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

For a single contract with the customer, a net contract liability is presented. For multiple contracts, contract liabilities of unrelated contracts are not presented on a net basis.

When the contract includes a significant financing component, the contract balance includes interest accrued under the effective interest method.

(r) Government grants

Government grants are recognised in the statement of financial position initially as deferred income when there is reasonable assurance that they will be received and that the Group will comply with the conditions attaching to them. Grants that compensate the Group for expenses incurred are recognised as revenue in the profit or loss on a systematic basis in the same periods in which the expenses are incurred. Grants that compensate the group for the cost of an asset are recognised in the profit or loss as revenue on a systematic basis over the useful life of the asset.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Income taxes

Income taxes for the year comprise current tax and deferred tax.

Current tax is based on the profit or loss from ordinary activities adjusted for items that are non-assessable or disallowable for income tax purposes and is calculated using tax rates that have been enacted or substantively enacted at the end of reporting period.

Deferred tax is recognised in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the corresponding amounts used for tax purposes. Except for goodwill and recognised assets and liabilities that affect neither accounting nor taxable profits, deferred tax liabilities are recognised for all taxable temporary differences. Deferred tax assets are recognised to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilised. Deferred tax is measured at the tax rates appropriate to the expected manner in which the carrying amount of the asset or liability is realised or settled and that have been enacted or substantively enacted at the end of reporting period.

An exception to the general requirement on determining the appropriate tax rate used in measuring deferred tax amount is when an investment property is carried at fair value under HKAS 40 "Investment Property". Unless the presumption is rebutted, the deferred tax amounts on these investment properties are measured using the tax rates that would apply on sale of these investment properties at their carrying amounts at the reporting date. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all the economic benefits embodied in the property over time, rather than through sale.

Deferred tax liabilities are recognised for taxable temporary differences arising on investments in subsidiaries, associates and jointly controlled entities, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future.

Income taxes are recognised in profit or loss except when they relate to items recognised in other comprehensive income in which case the taxes are also recognised in other comprehensive income or when they relate to items recognised directly in equity in which case the taxes are also recognised directly in equity.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Foreign currency

Transactions entered into by the group entities in currencies other than the currency of the primary economic environment in which it/they operate(s) (the "functional currency") are recorded at the rates ruling when the transactions occur. Foreign currency monetary assets and liabilities are translated at the rates ruling at the end of reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise. Exchange differences arising on the retranslation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the retranslation of non-monetary items in respect of which gains and losses are recognised in other comprehensive income, in which case, the exchange differences are also recognised in other comprehensive income.

On consolidation, income and expense items of foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the average exchange rates for the year, unless exchange rates fluctuate significantly during the period, in which case, the rates approximating to those ruling when the transactions took place are used. All assets and liabilities of foreign operations are translated at the rate ruling at the end of reporting period. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity as foreign exchange reserve (attributed to minority interests as appropriate). Exchange differences recognised in profit or loss of group entities' separate financial statements on the translation of long-term monetary items forming part of the Group's net investment in the foreign operation concerned are reclassified to other comprehensive income and accumulated in equity as foreign exchange reserve.

On disposal of a foreign operation, the cumulative exchange differences recognised in the foreign exchange reserve relating to that operation up to the date of disposal are reclassified to profit or loss as part of the profit or loss on disposal.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation on or after 1 January 2005 are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of reporting period. Exchange differences arising are recognised in the foreign exchange reserve.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Employee benefits

(i) Short term employee benefits

Short term employee benefits are employee benefits (other than termination benefits) that are expected to be settled wholly before twelve months after the end of the annual reporting period in which the employees render the related service. Short term employee benefits are recognised in the year when the employees render the related service.

(ii) Defined contribution retirement plan

Contributions to defined contribution retirement plans are recognised as an expense in profit or loss when the services are rendered by the employees.

The Group has arranged in Hong Kong employees to join the Mandatory Provident Fund Scheme (the "MPF Scheme") established under the Mandatory Provident Fund Ordinance. Under the MPF Scheme, each of the Group (the "employer") and its employees makes monthly contributions to the Scheme at 5% of the employees' earnings as defined under the Mandatory Provident Fund Ordinance. The contributions from employer and each of the employees respectively are subject to a cap of HK$1,500 per month and thereafter contributions are voluntary. The assets of the MPF Scheme are held separately from those of the Group and managed by an independent trustee.

The employees of the Group's subsidiaries operating in the People's Republic of China (the "PRC") are required to participate in a central pension scheme operated by the local municipal government. The subsidiaries are required to contribute a percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

The subsidiary in the United Kingdom operates a defined contribution scheme for its employees. The assets of the scheme are held separately from those of the subsidiary. Contributions to defined contribution retirement schemes are charged to the profit or loss as incurred.

(iii) Termination benefits

Termination benefits are recognised on the earlier of when the Group can no longer withdraw the offer of those benefits and when the Group recognises restructuring costs involving the payment of termination benefits.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) Non-current assets held for sale and discontinued operations

Non-current assets are classified as held for sale when their carrying amount is to be recovered principally through a sale transaction and a sale is considered highly probable. The non-current assets (except for certain assets as explained below), are stated at the lower of carrying amount and fair value less costs to sell. Deferred tax assets, assets arising from employee benefits, financial assets (other than investments in subsidiaries and associates) and investment properties, which are classified as held for sale, would continue to be measured in accordance with the policies set out elsewhere in note 4.

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

When an operation is classified as discontinued, a single amount is presented in the consolidated income statement, which comprises the post-tax profit or loss of the discontinued operation and the post-tax gain or loss recognised on the measurement to fair value less costs to sell, or on the disposal, of the assets constituting the discontinued operation.

(w) Capitalisation of borrowing costs

Borrowing costs attributable directly to the acquisition, construction or production of qualifying assets which require a substantial period of time to be ready for their intended use or sale, are capitalised as part of the cost of those assets. Income earned on temporary investments of specific borrowings pending their expenditure on those assets is deducted from borrowing costs capitalised. All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets to determine whether there is any indication that those assets have suffered an impairment loss. If the recoverable amount (i.e. the greater of the fair value less cost of disposal and value in use) of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount. An impairment loss is recognised as an expense immediately, unless the relevant asset is carried at a revalued amount under another standard, in which case the impairment loss is treated as a revaluation decrease under that standard.

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

Value in use is based on the estimated future cash flows expected to be derived from the asset or CGU (see note 4(d)), discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset or CGU.

(y) Provisions and contingent liabilities

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, which will probably result in an outflow of economic benefits that can be reasonably estimated.

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

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(z) Related parties

(a) A person or a close member of that person's family is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of key management personnel of the Group or the Company's parent.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member);

(iii) Both entities are joint ventures of the same third party;

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

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

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

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

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

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

(i) that person's children and spouse or domestic partner;

(ii) children of that person's spouse or domestic partner; and

(iii) dependents of that person or that person's spouse or domestic partner.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Segmental reporting

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

The Group has identified the following reportable operating segments:

Continuing operations

Sales of minerals

Through its wholly owned subsidiaries, South Sea Graphite (Luobei) Co., Ltd, ("SSG"), Liaoning Sinorth Resources Co., Limited ("LSR"), and Global Select Limited, the Company is engaged in the business of production and sale of graphite products worldwide.

Manufacture and sales of electronic products

Through its wholly-owned subsidiary, Axiom Manufacturing Services Ltd. ("Axiom") in the United Kingdom, the Company is engaged in the business of manufacture and sales of electronic products. Most of Axiom's customers are located within the United Kingdom.

4. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(aa) Segmental reporting (Continued)

Continuing operations (Continued)

Trading securities

Through its wholly-owned subsidiary, Great Admirer Limited, the Company is engaged in trading of securities.

Develop and sales of mobile phones

Through LSR, the Company is also involved in trading of mobile phones.

Film production

Through its wholly owned subsidiary, Unicorn Arts Limited ("UAL"), the Company developed a cultural industry business and multi-media products, including making movies, TV shows and Internet programs.

Others

Though its wholly-owned subsidiary Greeve Limited, the Company is engaged in design and manufacturing business.

Discontinued operation

Oil

Through its wholly-owned subsidiary, Kalrez Petroleum (Seram) Limited ("Kalrez"), the Company operates oilfields in Indonesia under the Bula Petroleum Production Sharing Contract ("Bula PSC"), which the Group entered into with BPMIGAS, Department of Petroleum of Indonesia, on 22 May 2000. The Bula PSC will expire in 2019.

On 5 March 2018, the Group disposed of the entire interests in Kalrez, at a consideration of US$600,000. The oil business is presented as discontinued operation.

Lease of production assets

During the year ended 31 December 2017, the Group engaged in the business of leasing of production asset through its wholly-owned subsidiary Luo Bei Xin Long Yuan Graphite Production Co. Limited and SSG.

On 14 September 2017, the Group disposed the entire interests in Luo Bei Xin Long Yuan Graphite Production Co. Limited, at a consideration of USD4,042,000 and the entire production assets of SSG at a consideration of US$3,701,000. The Group's business in leasing of production assets were discontinued.

5. CRITICAL ACCOUNTING JUDGMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

(a) Critical judgments in applying accounting policies

(i) Determination of functional currency

The Group measures foreign currency transactions in the respective functional currencies of the Company and its subsidiaries. In determining the functional currencies of the group entities, judgement is required to determine the currency that mainly influences sales prices for goods and services and of the country whose competitive forces and regulations mainly determines the sales prices of its goods and services. The functional currencies of the group entities are determined based on management's assessment of the economic environment in which the entities operate and the entities' process of determining sales prices.

(ii) Power to exercise significant influence

For certain investments with equity interests over 20%, management has assessed but there is an absence of any control, jointly control nor exercise significant influence over these companies as the Group did not participate in the financial and operating decisions of these companies during the year. Accordingly the Directors are in the opinion that the investments are not deemed to be associates and accounted for as financial assets at FVTPL.

(b) Key sources of estimation uncertainty

In addition to information disclosed elsewhere in these financial statements, other key sources of estimation uncertainty that have a significant risk of resulting a material adjustment to the carrying amounts of assets and liabilities within next financial year are as follows:

(i) Impairment of goodwill and intangible assets

Determining whether goodwill and intangible assets are impaired requires an estimation of the value in use of the CGUs to which goodwill and the intangible assets have been allocated. Value in use calculation requires the Group to estimate the present value of the future cash flows expected to arise from the CGUs containing goodwill and the intangible assets using suitable discount rates. Where the expected future cash flows arising from the relevant CGUs differ from the original estimation, an impairment loss may arise.

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

(b) Key sources of estimation uncertainty (Continued)

(ii) Income taxes

The Group is subject to income taxes in various jurisdictions. Significant judgment is required in determining the amount of the provision for taxation and the timing of payment of the related taxation. Where the final tax outcome is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the periods in which the final tax outcome is determined.

Deferred tax assets relating to certain tax losses will be recognised when management considers it is probable that future taxable profit will be available against which the temporary differences or tax losses can be utilised. Where the expectation is different from the original estimate, such difference will impact, where applicable and appropriate, the recognition of deferred tax assets and taxation in the periods in which such estimate is changed.

Deferred tax liabilities arise when the carrying amounts of the identifiable assets acquired in a business combination are recognised at their fair values at the acquisition date but the tax bases of the assets remain at cost to the previous owner, therefore a taxable temporary difference arises.

(iii) Estimated useful lives and impairment of property, plant and equipment and land use rights

In accordance with HKAS 16 "Property, Plant and Equipment", the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also perform annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a CGU is determined based on value in use calculations which require the use of assumptions and estimates.

(iv) Depreciation of property, plant and equipment

The Group depreciates its property, plant and equipment on a straight-line basis over their estimated useful lives, after taking into account their estimated residual value commencing from the date the asset is placed into productive use. The estimated useful lives reflect the directors' estimate of the periods that the Group intends to derive future economic benefits from the use of the Group's property, plant and equipment.

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

(b) Key sources of estimation uncertainty (Continued)

(v) Estimation of provision of inventories

The management of the Group reviews the net realisable values of inventories at the end of the reporting periods based primarily on the latest contracted price and current market conditions, less the estimated costs of completion and costs to make the sale of the products (if any), to determine if any provision to write off or write down inventories to their net realisable values is necessary. Where the actual net realisable value of the inventories are less than expected, a material provision may arise.

(vi) Impairment loss on trade and other receivables

As disclosed in note 37(d), the measurement of impairment loss under both HKFRS 9 and HKAS 39 across all categories of financial assets requires judgement, in particular, the estimation of the amount and timing of future cash flows and collateral values when determining impairment loss and the assessment if a significant increase in credit risk. These estimates are driven by a number of factors, changes in which can result in different levels of allowances.

It has been the Group's policy to regularly review its models in the context of actual loss experience and adjust when necessary.

At each reporting date, the Company assesses whether there has been a significant increase in credit risk for exposures since initial recognition by comparing the risk of default occurring over the expected life between the reporting date and the date of initial recognition. The Company considers reasonable and supportable information that is relevant and available without undue cost or effort for this purpose. This includes quantitative and qualitative information and also, forward-looking analysis.

(vii) Impairment of film rights

The management of the Group regularly reviews the recoverability of the Group's film rights with reference to its intended use and current market environment. Impairment of film rights are recognised in profit or loss when there is objective evidence that the asset is impaired. In determining whether impairment of film rights is required, the Group takes into consideration the distribution and license agreements entered into by the Group and the current market environment to project cash flows expected to be received through box office receipts and distribution and licensing income. Impairment loss is recognised in the period in which the recoverable amount is less than the carrying amount.

6. SEGMENT REPORTING

The Group has seven reportable operating segments, which are described in note 4(aa) to the consolidated financial statements.

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/(loss), which is a measure of adjusted profit/(loss) before tax. The adjusted profit/(loss) before tax is measured consistently with the Group's profit/(loss) before tax except that interest income, finance costs, dividend income, as well as head office and corporate expenses are excluded from this measurement.

Segment assets exclude cash and cash equivalents and other unallocated head office and corporate assets as these assets are managed on a group basis.

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment performance for the years ended 31 December 2018 and 2017 is set out below:

6. SEGMENT REPORTING (Continued)

(a) Business segments

For the year ended 31 December 2018

	Continuing operations							Discontinued operation	
	Sale of minerals 2018 US$'000	Manufacture and sales of electronic products 2018 US$'000	Trading securities 2018 US$'000	Develop and sales of mobile phones 2018 US$'000	Film production 2018 US$'000	Others 2018 US$'000	Subtotal 2018 US$'000	Oil 2018 US$'000	Total 2018 US$'000
Revenue from external customers	49,437	64,950	–	–	–	487	114,874	–	114,874
Segment results	10,131	4,618	(6,375)	(63)	(7,393)	10	928	8,016	8,944
Unallocated income									
Exchange gain							1,443	–	1,443
Unallocated expense									
Staff costs							(59)	–	(59)
Corporate overhead							(923)	–	(923)
Profit from operating activities							1,389	8,016	9,405
Share of losses of a joint venture, net of tax							(13)	–	(13)
Finance costs							(26)	–	(26)
Taxation							(2,457)	–	(2,457)
(Loss) /profit for the year							(1,107)	8,016	6,909
Segment assets	359,065	50,083	2,121	360	13,184	908	425,721	–	425,721
Reconciliation of segment assets:									
Unallocated corporate assets							735	–	735
Total assets							426,456	–	426,456
Segment liabilities	(22,429)	(20,312)	(16,777)	–	–	(96)	(59,614)	–	(59,614)
Reconciliation of segment liabilities:									
Unallocated corporate liabilities							(13)	–	(13)
Total liabilities							(59,627)	–	(59,627)
Depreciation	849	973	–	–	–	60	1,882	–	1,882
Significant non-cash expenses	788	273	3,058	–	7,392	–	11,511	–	11,511
Capital expenditure additions	5,605	2,527	–	–	1,635	–	9,767	–	9,767

6. SEGMENT REPORTING (Continued)

(a) Business segments (Continued)

For the year ended 31 December 2017

	Continuing operations							Discontinued operation			
	Sale of minerals 2017 US$'000	Manufacture and sales of electronic products 2017 US$'000	Trading securities 2017 US$'000	Develop and sales of mobile phones 2017 US$'000	Film production 2017 US$'000	Others 2017 US$'000	Subtotal 2017 US$'000	Oil 2017 US$'000	Lease of production assets 2017 US$'000	Subtotal 2017 US$'000	Total 2017 US$'000
Revenue from external customers	9,696	52,928	–	–	–	256	62,880	3,146	964	4,110	66,990
Segment results	412	2,834	(1,767)	(851)	–	–	628	(3,650)	(1,231)	(4,881)	(4,253)
Unallocated expense							(2,106)			–	(2,106)
Loss from operating activities							(1,478)			(4,881)	(6,359)
Finance costs							(51)			–	(51)
Taxation							(498)			–	(498)
Loss for the year							(2,027)			(4,881)	(6,908)
Segment assets	356,426	43,797	3,743	751	35,451	–	440,168	1,367	–	1,367	441,535
Reconciliation of segment assets:											
Unallocated corporate assets							2,720			–	2,720
Total assets							442,888			1,367	444,255
Segment liabilities	(53,493)	(15,409)	–	–	–	–	(68,902)	(10,118)	–	(10,118)	(79,020)
Reconciliation of segment liabilities:											
Unallocated corporate liabilities											
Other payables							(1,290)			–	(1,290)
Total liabilities							(70,192)			(10,118)	(80,310)
Depreciation	282	745	–	–	–	15	1,042	187	852	1,039	2,081
Significant non-cash expenses	–	–	1,252	319	–	799	2,370	–	–	–	2,370
Capital expenditure additions	9,385	977	–	–	4,614	–	14,976	–	–	–	14,976

6. SEGMENT REPORTING (Continued)

(b) Disaggregation of revenue from contracts with customers

Continuing operations

	Revenue		Total assets		Capital expenditure	
	2018	2017	**2018**	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
United Kingdom	**65,436**	53,185	**50,992**	43,797	**2,527**	977
China	**12,930**	5,394	**42,270**	27,459	**134**	40
America	**–**	1,887	**1,341**	3,217	**–**	–
Hong Kong	**9,809**	–	**10,602**	29,886	**1,635**	4,614
Macau	**–**	–	**1,927**	3,559	**–**	–
Madagascar	**26,699**	2,414	**319,324**	334,970	**5,471**	9,345
	114,874	62,880	**426,456**	442,888	**9,767**	14,976

Discontinued operation

	Revenue		Total assets		Capital expenditure	
	2018	2017	**2018**	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000	**US$'000**	US$'000
Indonesia	**–**	4,110	**–**	1,367	**–**	–

(c) Information about major customers

Revenue from customers of the corresponding years contributing over 10% of the total revenue of the Group are as follows:

	2018	2017
	US$'000	US$'000
Customer A	**26,699**	N/A
Customer B	**15,456**	15,665
Customer C	**14,230**	8,956
Customer D	**13,820**	10,998

7. REVENUE AND OTHER INCOME

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

	2018 US$'000	2017 US$'000
Continuing operations		
Revenue from contracts with customers		
Sales of minerals	**49,437**	9,696
Manufacture and sales of electronic products	**64,950**	52,928
Others	**487**	256
	114,874	62,880
Timing of revenue recognition		
At a point in time	**114,874**	62,880
Other income		
Bank interest income	**3**	5
Dividend income	**17**	15
Government subsidy	**454**	1,015
Rental income	**2,197**	464
Reversal of impairment of other receivables	**2,859**	–
Sundry income	**997**	809
	6,527	2,308

The following table provides information about trade receivables and contract liabilities from contracts with customers.

	31 December 2018 US$'000	1 January 2018 US$'000
Trade receivables *(note 22)*	**23,460**	17,693
Contract liabilities *(note 24)*	**2,339**	–

The contract liabilities mainly relate to the advance consideration received from customers.

As at 31 December 2018, the aggregated amount of the transaction price allocated to the remaining performance obligations under the Group's existing contracts is US$2,339,000. This amount represents revenue expected to be recognised in the future from partially-completed contracts of sales of minerals and manufacture and sales of electronic products. The Group will recognise the expected revenue in future when or as the work is completed, which is expected to occur in the next 12 to 36 months.

8. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging/(crediting):

	2018	2017
	US$'000	US$'000
Continuing operations		
Depreciation:		
– owned fixed assets	**1,720**	883
– leased fixed assets	**162**	159
Operating lease rentals on		
– land and buildings	**259**	627
– plant and machinery	**79**	33
Costs of inventories sold	**96,897**	49,847
Staff costs (including directors' remuneration *(note 10)*)	**13,917**	11,673
Auditor's remuneration		
– audit fee	**385**	123
– other services	**27**	18
Gain on disposal of fixed assets	**–**	(15)
Impairment of inventories	**400**	217
Impairment of trade receivables	**661**	–
Impairment of intangible assets	**7,392**	–
Foreign exchange gain, net	**(208)**	(873)
Impairment of amount due from an investee company	**–**	799
Discontinued operation		
Depreciation – owned assets	**–**	1,039
Cost of inventories sold	**–**	3,680
Staff costs	**459**	1,257
Auditor's remuneration	**–**	15
Loss on disposal of fixed assets	**–**	415

9. FINANCE COSTS

	2018	2017
	US$'000	US$'000
Interest on obligation under finance leases	**26**	25
Other interest paid	**–**	26
	26	51

10. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS

(a) Directors' remuneration

Directors' remuneration disclosed pursuant to the Listing Rules and Section 383 of the Companies Ordinance is as follows:

Name of directors	**Fees** **US$'000**	**Salaries, allowances and benefits in kind** **US$'000**	**Retirement scheme contributions** **US$'000**	**2018 Total** **US$'000**
Executive directors				
Zhang Xue	**–**	**31**	**1**	**32**
Feng Zhong Yun	**–**	**15**	**–**	**15**
Independent non-executive directors				
Lu Ren Jie	**20**	**–**	**–**	**20**
Chai Woon Chew	**15**	**–**	**–**	**15**
Ng Lai Po	**15**	**–**	**1**	**16**
Han Zhi Jun	**15**	**–**	**–**	**15**
	65	**46**	**2**	**113**

Name of directors	Fees US$'000	Salaries, allowances and benefits in kind US$'000	Retirement scheme contributions US$'000	2017 Total US$'000
Executive directors				
Zhang Xue	–	31	1	32
Feng Zhong Yun	–	15	–	15
Independent non-executive directors				
Lu Ren Jie	20	–	–	20
Chai Woon Chew	15	–	–	15
Ng Lai Po	15	–	1	16
Han Zhi Jun	15	–	–	15
	65	46	2	113

10. DIRECTORS' REMUNERATION AND EMPLOYEES' EMOLUMENTS (Continued)

(b) Staff cost (including directors' remuneration)

Continuing operations

	2018 **US$'000**	2017 US$'000
Fees	**65**	65
Salaries, allowances and other benefits in kind	**13,251**	11,541
Retirement scheme contributions	**601**	67
	13,917	11,673

11. FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees during the year did not include any director (2017: Nil, details of whose remuneration are set out in note 10 above. The details of the remuneration of the five non-directors (2017: five), highest paid employees are set out below:

	2018 **US$'000**	2017 US$'000
Salaries, allowances and other benefits in kind	**1,099**	1,180

The remuneration of the non-director, highest paid employees fell within the following bands:

	Number of non-directors	
	2018	2017
US$0 to US$128,200	**1**	1
US$128,201 to US$192,300	**3**	2
US$192,301 to US$256,400	**1**	–
US$256,401 to US$320,500	**–**	1
US$320,501 to US$384,600	**–**	–
US$384,601 to US$448,700	**–**	–
US$448,701 to US$572,800	**–**	1
	5	5

12. INCOME TAX EXPENSE

(a) Income tax expense in the consolidated statement of profit or loss represents:

	2018 US$'000	2017 US$'000
Overseas tax charge		
– Current year	**1,802**	385
Deferred tax charge *(note 20)*	**655**	113
	2,457	498

No provision for Hong Kong profits tax has been made as, in the opinion of the Company's directors, the Group did not have any estimated assessable profits in Hong Kong for the years.

Taxation for overseas subsidiaries is charged at the appropriate current rates of taxation ruling in the relevant countries.

Deferred tax charge for the year represents deferred tax provided in the UK subsidiaries.

(b) Reconciliation between tax expense and accounting profit/(loss) at applicable tax rates:

	2018 US$'000	2017 US$'000
Continuing operations		
Profit/(loss) before income tax expense	**1,350**	(1,529)
Tax on profit/(loss) before tax, calculated at the rates applicable to profits in the countries concerned	**1,053**	(1,873)
Tax effect of non-deductible expenses	**10,738**	612
Tax effect of non-taxable income	**(9,722)**	(123)
Tax effect of tax losses not recognised	**257**	2,120
Tax loss recognised	**(536)**	(257)
Others	**667**	19
Income tax	**2,457**	498

13. EARNINGS/(LOSSES) PER SHARE

For continuing and discontinued operations

The calculation of the basic and diluted earnings/(losses) per share attributable to the ordinary equity holders of the Company is based on the following data:

Earnings/(losses)

	2018 US$'000	2017 US$'000
Earnings/(losses) for the purposes of basic and diluted earnings/(losses) per share	**6,909**	(9,577)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted earnings/(losses) per share	**4,982,709,078**	3,828,898,571

For continuing operations

The calculation of the basic and diluted losses per share attributable to the ordinary equity holders of the Company is based on the following data:

Earnings/(losses) figures are calculated as follows:

	2018 US$'000	2017 US$'000
Profit/(loss) for the year attributable to owners of the Company	**6,909**	(9,577)
Less:		
Profit/(loss) for the year from discontinued operation	**8,016**	(2,212)
Losses for the purposes of basic losses per share from continuing operations	**(1,107)**	(7,365)
Number of shares		
Weighted average number of ordinary shares for the purposes of basic and diluted losses per share	**4,982,709,078**	3,828,897,571

The denominators used are the same as those detailed above for both basic and diluted earnings/(losses) per share.

13. EARNINGS/(LOSSES) PER SHARE (Continued)

From discontinued operation

Basic earnings per share for the discontinued operation is 0.16 cents per share (2017: basic loss of 0.06 cents per share) and diluted earnings per share for the discontinued operation 0.16 cents per share (2017: loss of 0.06 cents per share), based on the profit for the year from the discontinued operation of US$8,016,000 (2017: loss of US$2,212,000) and the denominators detailed above for the both basic and diluted earnings/(losses) per share.

Diluted earnings per share is of the same amount as the basic earnings per share as there were no potential dilutive ordinary shares outstanding as at 31 December 2018 (2017: same).

14. OTHER PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Group	Land and buildings US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor Vehicles US$'000	Constructions in progress US$'000	Sub-total US$'000	Investment properties US$'000	Total US$'000
Cost or valuation:								
At 1.1.2018	10,132	11,066	7,206	214	9,350	37,968	1,856	39,824
Exchange differences	(561)	(651)	(423)	(2)	–	(1,637)	(102)	(1,739)
Additions	–	1,983	568	10	5,471	8,032	–	8,032
Transfer	–	6,511	–	–	(13,860)	(7,349)	7,349	–
Disposal	–	(348)	–	–	–	(348)	–	(348)
Revaluation	250	–	–	–	–	250	–	250
At 31.12.2018	9,821	18,561	7,351	222	961	36,916	9,103	46,019
Representing:								
Cost	3,995	18,561	7,351	222	961	31,090	9,103	40,193
Valuation	5,826	–	–	–	–	5,826	–	5,826
	9,821	18,561	7,351	222	961	36,916	9,103	46,019
Accumulated depreciation:								
At 1.1.2018	1,145	8,822	5,788	214	–	15,969	–	15,969
Exchange difference	(70)	(490)	(341)	(2)	–	(903)	(1)	(904)
Charge for the year	195	1,098	314	1	–	1,608	274	1,882
Disposal	–	(4)	–	–	–	(4)	–	(4)
Written back	–	(328)	–	–	–	(328)	–	(328)
At 31.12.2018	1,270	9,098	5,761	213	–	16,342	273	16,615
Net book value:								
At 31.12.2018	8,551	9,463	1,590	9	961	20,574	8,830	29,404

14. OTHER PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

Group	Oil properties US$'000	Land and buildings US$'000	Plant and machinery US$'000	Furniture, fittings and computers US$'000	Motor Vehicles US$'000	Constructions in progress US$'000	Sub-total US$'000	Investment properties US$'000	Total US$'000
Cost or valuation:									
At 1.1.2017	3,906	10,739	20,645	6,259	1,892	77	43,518	7,851	51,369
Exchange differences	–	780	1,185	576	52	5	2,598	222	2,820
Disposal of a subsidiary	–	–	(4,440)	–	(789)	(82)	(5,311)	(3,490)	(8,801)
Additions	–	–	641	371	–	9,350	10,362	–	10,362
Transfer to assets classified as held-for-sale	(3,906)	–	–	–	–	–	(3,906)	–	(3,906)
Transfer	–	(1,856)	–	–	–	–	(1,856)	1,856	–
Disposal	–	–	(6,965)	–	(941)	–	(7,906)	(4,583)	(12,489)
Revaluation	–	469	–	–	–	–	469	–	469
At 31.12.2017	–	10,132	11,066	7,206	214	9,350	37,968	1,856	39,824
Representing:									
Cost	–	4,223	11,066	7,206	214	9,350	32,059	1,856	33,915
Valuation	–	5,909	–	–	–	–	5,909	–	5,909
	–	10,132	11,066	7,206	214	9,350	37,968	1,856	39,824
Accumulated depreciation:									
At 1.1.2017	3,677	876	15,791	5,080	1,828	–	27,252	2,626	29,878
Exchange difference	–	66	1,111	476	79	–	1,732	116	1,848
Charge for the year	147	203	1,200	232	29	–	1,811	270	2,081
Disposal of a subsidiary	–	–	(3,312)	–	(750)	–	(4,062)	(893)	(4,955)
Transfer to assets classified as held-for-sale	(3,824)	–	–	–	–	–	(3,824)	–	(3,824)
Written back	–	–	(5,968)	–	(972)	–	(6,940)	(2,119)	(9,059)
At 31.12.2017	–	1,145	8,822	5,788	214	–	15,969	–	15,969
Net book value:									
At 31.12.2017	–	8,987	2,244	1,418	–	9,350	21,999	1,856	23,855

14. OTHER PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

Company	Furniture, fittings and computers US$'000	Motor vehicles US$'000	Total US$'000
Cost:			
At 1.1.2017	150	183	333
Addition	–	–	–
At 31.12.2017	150	183	333
Addition	–	–	–
At 31.12.2018	150	183	333
Accumulated depreciation:			
At 1.1.2017	148	183	331
Change for the year	2	–	2
At 31.12.2017	150	183	333
Change for the year	–	–	–
At 31.12.2018	150	183	333
Net book value:			
At 31.12.2018	–	–	–
At 31.12.2017	–	–	–

14. OTHER PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

The analysis of net book value of properties is as follows:

	2018 US$'000	2017 US$'000
Properties		
– freehold outside Hong Kong	**5,826**	5,909
– medium lease outside Hong Kong	**2,725**	3,078
	8,551	8,987

The freehold land and buildings were revalued on 31 December 2018 on the basis of their open market value by Cookie & Arkwright, an independent firm of chartered surveyors.

The Group's freehold land and buildings were classified under level 3 in the fair value hierarchy. A reconciliation of the opening and closing fair value balance is provided below.

	2018 US$'000	2017 US$'000
Opening balance (level 3 recurring fair value)	**5,909**	6,782
Exchange differences	**(333)**	514
Transfer to investment properties	**–**	(1,856)
Gains included in other comprehensive income:		
Revaluation of land and buildings	**250**	469
Closing balance (level 3 recurring fair value)	**5,826**	5,909

The fair value of freehold land and buildings were determined based on the market comparable approach that reflects recent transaction prices for similar properties, adjusted for differences in the nature, location and condition of the freehold land and buildings under review. These adjustments are based on unobservable inputs.

14. OTHER PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES (Continued)

Details about the valuation inputs are as follows:

Properties	Location	Level	Valuation technique	Unobservable inputs	Range of unobservable inputs
Land and buildings	United Kingdom	3	Market comparable approach	Discount/Premium on quality and characteristics of properties	-5% to 5%

Higher premiums or discounts for differences in the quality and characteristics of the Group's properties and the comparables would result in correspondingly higher or lower fair values.

There has been no change to the valuation technique during the year.

The fair value measurement is based on the above properties' highest and best use, which does not differ from their actual use.

Had the Group's freehold land and buildings been measured on a historical cost basis, their carrying amount would have been US$3,922,000 (2017: US$4,046,000).

During the year ended 31 December 2018 there were no transfers into or out of Level 3 or any other Level. The Group's policy is to recognise transfers between Levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The Group's investment properties are measured using a cost model and are leased to third parties under operating leases to earn rental income of US$1,404,000 (2017: US$206,000).

As at 31 December 2018, the fair value of the Group's investment properties, with reference to recent market transactions were US$8,903,000 (2017: US$1,856,000).

The directors considered that no provision for impairment loss on the investment properties as they were all rented out and the cash inflows generated therefrom sufficiently cover the cost of the investment properties.

During the year ended 31 December 2018 there were no transfers into or out of Level 3 or any other Level. The Group's policy is to recognise transfers between Levels of the fair value hierarchy as at the end of the reporting period in which they occur.

The net book value of plant and machinery held under finance leases of the Group was US$328,000 (2017: US$513,000).

15. PREPAID LEASE PAYMENTS

	2018 **US$'000**	2017 US$'000
At 1 January	**2,581**	4,563
Additions	**100**	–
Amortisation	**(38)**	(102)
Exchange difference	**(142)**	304
Disposal of a subsidiary *(note 31(d))*	**–**	(2,184)
At 31 December	**2,501**	2,581

The Group's leasehold land is situated in the PRC.

The cost of land use rights is amortised over 50 years on a straight-line basis.

16. INTANGIBLE ASSETS

	Goodwill US$'000	**Customer contract** US$'000	**Film right** US$'000	**Total** US$'000
Cost:				
At 1 January 2017 (restated)	708	643	9,474	10,825
Disposal of a subsidiary	(537)	–	–	(537)
Additions	–	–	4,614	4,614
At 31 December 2017 (restated)	171	643	14,088	14,902
Additions	–	–	1,635	1,635
Disposal	–	–	(3,587)	(3,587)
Exchange alignment	–	(57)	–	(57)
At 31 December 2018	**171**	**586**	**12,136**	**12,893**
Accumulated amortisation and impairment:				
At 1 January 2017	–	77	–	77
Charge for the year	–	41	–	41
At 31 December 2017	–	118	–	118
Charge for the year	–	92	–	92
Impairment	–	–	7,392	7,392
Exchange alignment	–	(32)	–	(32)
At 31 December 2018	**–**	**178**	**7,392**	**7,570**
Carrying amount:				
At 31 December 2018	**171**	**408**	**4,744**	**5,323**
At 31 December 2017 (restated)	171	525	14,088	14,784

16. INTANGIBLE ASSETS (Continued)

Goodwill and customer contract arose from the acquisition of 100% equity interest in Greeve Limited on 20 July 2016.

The recoverable amounts of Greeve Limited as at 31 December 2018 to which the goodwill and customer contract allocated were determined from value in use calculations based on cash flow projections from formally approved budgets covering a five-year period. Cash flows beyond the five-year period are extrapolated using an estimated weighted average growth rate of 0% (2017: 0%). Key assumptions were based on past performance, management estimation on market development and general inflation based on the growth rates which did not exceed the long-term average growth rates for the businesses in which the CGUs operates. The discount rates used for value in use calculations are pre-tax and reflected specific risks relating to the relevant CGUs.

The key assumptions used for value in use calculations are as follows:

	2018	2017
Discount rate	**9.4%**	9.4%
Terminal growth rate	**3%**	3%

Apart from the considerations described above in determining the value in use of the CGUs, management was not aware of any other probable changes that would necessitate changes in the key assumptions.

The recoverable amount of the film right was determined as based on a value in use calculation. The discount rate used for value in use calculation is 21.3% (2017: 30.5%). Accordingly, impairment of US$7,392,000 (2017: Nil) was recognised in profit or loss due for the year ended 31 December 2018 due to unfavourable change in market condition which delayed the expected date of release of the film.

17. INTERESTS IN SUBSIDIARIES

	2018 **US$'000**	2017 US$'000
Unlisted shares, at cost	**414**	414
Amounts due from subsidiaries	**554,626**	542,035
	555,040	542,449
Provision for impairment	**(177,693)**	(177,693)
Carrying value at 31 December	**377,347**	364,756

17. INTERESTS IN SUBSIDIARIES (Continued)

The amounts due from subsidiaries are unsecured, interest-free and have no fixed terms of repayment. The carrying amounts approximate their fair value.

Details of the subsidiaries are as follows:

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the company Directly %	Indirectly %	Principal activities
Global Select Limited	British Virgin Islands	Madagascar	3 ordinary shares of US$1 each	100	–	Investment holding, trading of minerals and subletting of oil properties
Kalez Petroleum (Seram) United*	British Virgin Islands	Indonesia	1 ordinary share of US$1 each	–	100	Investment holding
Cityhill Limited	Cayman Islands	Hong Kong	1 ordinary share of US$1 each	–	100	Sale of Piece of Cake Products
Great Admirer Limited	Hong Kong	Hong Kong	200 ordinary shares of HK$1 each	100	–	Investment holding and securities trading
Axiom Manufacturing Services Limited	United Kingdom	United Kingdom	13,564,002 ordinary shares of £1 each	–	100	Assemble of Electronic components
Axiom MS Limited	United Kingdom	United Kingdom	1,000 ordinary shares of £1 each	–	100	Property holding
Greeve Limited	United Kingdom	United Kingdom	700 ordinary shares of £1 each	–	100	Design and manufacturing

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows: (Continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the company Directly %	Indirectly %	Principal activities
Comp Hotel International Limited	British Virgin Islands	PRC	1 ordinary shares of US$1 each	100	–	Properties investment
Comp International Limited	British Virgin Islands	Hong Kong	64,300 ordinary shares of US$1 each	100	–	Dormant
Comp Property International Limited	British Virgin Islands	Hong Kong	1 ordinary shares of US$1 each	100	–	Dormant
Comp Media & Advertising Limited	Hong Kong	Hong Kong	200 ordinary shares of US$1 each	99.5	0.5	Dormant
Easton Technologies Corp	USA	USA	5,000,000 ordinary shares of US$0.0001 each	–	85	Dormant
Cowley Technologies Inc.	USA	USA	16,100,000 ordinary shares of US$0.0001 each	–	88.51	Investment holding
Greenway Technologies Inc.	USA	USA	2,000,000 ordinary shares of US$0.0001 each	85	–	Dormant
China Resources Development Group Limited	Hong Kong	Hong Kong	85,000,000 ordinary shares of HK$1 each	–	100	Investment holding and marketing
South Sea Graphite (Luobei) Co., Limited[1]	PRC	PRC	RMB90,023,000	–	100	Investment holding, leasing of fixed assets exploration, production and selling of mineral products
South Sea Properties (Global) Ltd.	British Virgin Islands	–	US$50,000	100	–	Dormant

17. INTERESTS IN SUBSIDIARIES (Continued)

Details of the subsidiaries are as follows: (Continued)

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the company		Principal activities
				Directly %	Indirectly %	
Unicorn Arts Limited	Hong Kong	Hong Kong	1 ordinary shares of HK$1 each	–	100	Development of cultural industry and multi-media production
Unicorn Arts (Beijing) Limited(1)	PRC	PRC	RMB3,000,000	–	100	Development of cultural industry and multi-media production
Moderation Limited	Hong Kong	Hong Kong	6 ordinary shares of HK$1 each	–	100	Investment holding
Liaoning Sinorth Resources Co. Limited(1)	PRC	PRC	RMB70,461,854	–	100	Production and selling of mineral products

* disposed during the year

(1) wholly foreign owned enterprise established in the PRC

The above table lists the subsidiaries of the Company which, in the opinion of the directors, principally affected the results of the year or formed a substantial portion of the net assets of the Group.

18. INTEREST IN A JOINT VENTURE

	2018 US$'000	2017 US$'000
Share of net assets	–	–
Amount due from a joint venture	965	–

On 23 January 2018, the Group entered into an agreement with an independent third party, to form a joint venture company, Gold Gold Gold Limited. The joint venture was formed on 9 February 2018. Both parties injected HK$100,000 (equivalent to approximately US$13,000) to the joint venture company.

The primary activity of Gold Gold Gold Limited is trading of gold, which is in line with the Group's strategy to explore new business opportunities.

The contractual arrangement provides the Group with only the rights to the net assets of the joint arrangement, with the rights to the assets and obligation for the liabilities of the joint arrangement resting primarily with Gold Gold Gold Limited. Under HKFRS 11 this joint arrangement is classified as a joint venture and has been included in the consolidated financial statements using the equity method.

At 31 December 2018, details of the joint venture is as follows:

Company	Place of incorporation	Place of operations	Issued/registered share capital	Percentage of issued share capital held by the company Indirectly %	Principal activities
Gold Gold Gold Limited	Hong Kong	Hong Kong	10,000 ordinary shares of HK$1.00 each	50	Trading of gold

The amount due from a joint venture was unsecured, interest free and repayable on demand.

18. INTEREST IN A JOINT VENTURE (Continued)

Summarised financial information of the joint venture, adjusted for any differences in accounting policies, is presented below:

	2018 US$'000
As at 31 December	
Current assets	**2,445**
Current liabilities	**(3,387)**
Net liabilities	**(942)**
Included in the above amounts are:	
Cash and cash equivalents	**2,232**

	For the period from 9 February 2018 to 31 December 2018 US$'000
Revenue	**–**
Profit or loss from continuing operations	**(968)**
Other comprehensive income for the period	**–**
Total comprehensive income for the period	**–**
Included in the above amounts are:	
Interest income	**2**

19. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

		Group		Company	
		2018	2017	**2018**	2017
	Note	**US$'000**	US$'000	**US$'000**	US$'000
Hong Kong listed shares		**310**	541	**3**	3
Shares traded on the OTC Bulletin Board in the United States	*(i)*	**–**	3,150	**–**	–
		310	3,691	**3**	3

Movement during the year is as follows:

		Group		Company	
		2018	2017	**2018**	2017
	Notes	**US$'000**	US$'000	**US$'000**	US$'000
As at 1 January		**3,691**	4,944	**3**	3
Additions	*(ii)*	**1,529**	–	**–**	–
Disposals	*(ii)*	**(1,852)**	–	**–**	–
Net realised gains on disposals	*(ii)*	**235**	–	**–**	–
Net unrealised losses		**(3,293)**	(1,254)	**–**	–
Exchange alignment		**–**	1	**–**	–
As at 31 December		**310**	3,691	**3**	3
Total net loss recognised in profit or loss related to financial assets at FVTPL held by the Group for the year		**(3,058)**	(1,254)	**–**	–

Notes:

(i) The Group owns 15 million shares of a company traded on the OTC Markets in the United States with cost at approximately US$450,000. As at 31 December 2017, the Group used its quoted closing price (unadjusted) to measure its fair value and the investment was classified as level 1 investment. A fair value loss of US$1,350,000 was recognised in profit or loss during the year ended 31 December 2017. During the year ended 31 December 2018, the company was no longer actively traded on the OTC Market. The fair value of the investment as at 31 December 2018 determined using market approach by reference to the sale transaction entered between the Group and a third party subsequent to year end. A fair value loss of US$3,150,000 was recognised in profit or loss. As the inputs to the valuation is not observable in the market, the fair value of the investment is categorised within level 3 of the fair value hierarchy. The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

During the year, the Group recognised unrealised loss on listed securities of US$143,000 (2017: gain of US$96,000).

(ii) During the year, the Group acquired and disposed certain listed and unlisted securities and recognised net realised gains on disposals of US$235,000 (2017: Nil).

20. DEFERRED TAX

The following are the major deferred tax assets/(liabilities) recognised by the Group, and the movements thereon, during the current and prior years.

	Accelerated depreciation US$'000	Tax losses carried forward US$'000	Intangible asset US$'000	Total US$'000
At 1 January 2017	1,331	21	(114)	1,238
(Charge)/credit to profit or loss *(note 12)*	8	(138)	17	(113)
Exchange difference	127	(4)	(10)	113
At 31 December 2017 and 1 January 2018	1,466	(121)	(107)	1,238
(Charge)/credit to profit or loss *(note 12)*	(536)	(144)	25	(655)
Exchange difference	(65)	11	5	(49)
At 31 December 2018	**865**	**(254)**	**(77)**	**534**

For the purpose of presentation in statement of financial position, certain deferred tax assets and liabilities have been offset. The following is the analysis of the deferred tax balances for financial reporting purposes:

	2018 US$'000	2017 US$'000
Deferred tax assets	**611**	1,345
Deferred tax liabilities	**(77)**	(107)

Deferred tax asset has not been recognised for the following:

	2018 US$'000	2017 US$'000
Unused tax losses	**12,077**	11,067

No deferred tax asset has been recognised in respect of certain unused tax losses due to the unpredictability of future profit streams.

21. INVENTORIES

	2018	2017
	US$'000	US$'000
Production supplies and raw materials	**13,030**	7,546
Work in progress	**4,490**	3,489
Finished goods	**306,542**	327,167
	324,062	338,202

During the year, a write-down of inventories of US$400,000 (2017: US$217,000) were recognised in profit or loss.

22. TRADE RECEIVABLES

	2018	2017
	US$'000	US$'000
Trade receivables	**23,460**	17,693

Included in trade receivables are trade debtors (net of impairment losses) with the following ageing analysis, based on invoice dates, as of the end of reporting period.

	2018	2017
	US$'000	US$'000
0 – 30 days	**8,981**	5,252
31 – 60 days	**8,963**	7,007
61 – 90 days	**2,805**	3,356
Over 90 days	**2,711**	2,078
	23,460	17,693

22. TRADE RECEIVABLES (Continued)

The following table reconciled the impairment allowance of trade receivables for the year:

	2018
	US$'000
At 1 January	**–**
Impairment loss provided	**661**
Exchange alignment	**(26)**
At 31 December	**635**

Except for the sales of graphite, all receivables are due for settlement no more than 60 days after issue and collectability is reviewed on an ongoing basis. Further details on the Group's credit policy and credit risk arising from trade debtors are set out in note 37(d).

The maximum exposure to credit risk as at 31 December 2018 was the carrying amount mentioned above. In general, the Group does not hold any collateral or other credit enhancements over these balances.

23. OTHER RECEIVABLES, DEPOSITS AND PREPAYMENTS

	2018	2017
	US$'000	US$'000
		(Restated)
Purchase deposits	**12,166**	5,039
Other deposits and prepayments	**6,881**	6,203
Other receivables	**6,404**	19,330
	25,451	30,572
Categorised as:		
Current portion	**21,864**	30,572
Non-current portion	**3,587**	–
	25,451	30,572

The maximum exposure to credit risk at the reporting date is the carrying amounts of each class of receivables mentioned above. The Group does not hold any collateral as security.

As at 31 December 2018, other receivables under non-current portion included a loan with a principal amount of US$3,600,000 (2017: Nil) which was secured interest bearing at 5% per annum and repayable within 2 years. The loan was not past due nor impaired as at 31 December 2018.

24. CONTRACT LIABILITIES

	31 December 2018 US$'000	1 January 2018 US$'000	31 December 2017 US$'000
Contract liabilities arising from:			
Sales of minerals	**2,339**	–	–

Typical payment terms which impact on the amount of contract liabilities are as follows:

Sale of minerals

As noted above, the receipts in advance received from the customers remains as a contract liability until the goods have been transferred and accepted by the customer.

	2018 US$'000
Balance as at 1 January	**–**
Increase in contract liabilities as a result of received receipts in advance from the customers that the goods have not yet transferred and not yet accepted by the customer	**2,433**
Exchange alignment	**(94)**
Balance at 31 December	**2,339**

25. TRADE PAYABLES

The ageing analysis of the trade payables is as follows:

	2018 US$'000	2017 US$'000
0 – 30 days	**3,534**	2,403
31 – 60 days	**4,472**	1,212
61 – 90 days	**3,708**	3,962
Over 90 days	**4,123**	38,939
	15,837	46,516

Trade payables principally comprise amounts outstanding for trade purchases and ongoing costs. The average credit period taken for trade purchases ranged from 30 to 90 days.

26. OTHER PAYABLES AND ACCRUALS

	2018 US$'000	2017 US$'000
Other payables	**16,968**	376
Accruals and deferred income	**4,388**	4,878
Other tax payable	**2,672**	2,171
	24,028	7,425

27. OBLIGATIONS UNDER FINANCE LEASES

	Minimum lease payments		Present value of minimum lease payments	
	2018	2017	**2018**	2017
	US$'000	US$'000	**US$'000**	US$'000
Within one year	**33**	236	**33**	210
After one year but within two years	**–**	39	**–**	35
	33	275	**33**	245
Less: future finance charges	**–**	30		
Present value of finance lease	**33**	245		
Less: Amount shown under current liabilities			**33**	210
Amount shown under non-current liabilities			**–**	35

28. CONVERTIBLE DEBENTURES

Convertible Debenture 4 April 2021

On 11 April 2011, the Company entered into a subscription agreement with RTM Financial Corp., ("RTM") for an aggregate of US$250 million 3% interest convertible debentures due 4 April 2021 ("Convertible Debenture 4 April 2021").

RTM shall have the right to make subscription and conversion of Convertible Debenture 4 April 2021 in whole or in part in multiples within the conversion period.

The Company will issue the portion of debenture which is fully paid. RTM has the right to convert at US$0.50 (equivalent to HK$3.90) per share, or the then effective par value at the time of conversion.

During the year ended 31 December 2018, no (2017: Nil) Convertible Debenture 4 April 2021 was issued by the Company.

28. CONVERTIBLE DEBENTURES (Continued)

Convertible Debenture 2018

On 14 August 2014, the Company entered into a subscription agreement with Unique Hero Development Limited ("Unique Hero") for an aggregate of HK$1,660 million 0% interest convertible debentures due 31 December 2018 ("Convertible Debenture 2018").

The Company will issue the portion of debenture which is fully paid. The Convertible Debenture 2018 holder has right to convert at a price of HK$0.83 per share initially, which was then adjusted to HK$0.566 per share upon completion of the share consolidation on 9 October 2014.

During the year ended 31 December 2018, no (2017: Nil) Convertible Debenture 2018 was issued by the Company.

Convertible Debenture 31 December 2021

On 30 December 2015, the Company entered into a subscription agreement with Sinocreative Limited ("Sinocreative") for an aggregate amount of HK$1,000 million 0% interest convertible debentures due on 31 December 2021 ("Convertible Debenture 31 December 2021"). Sinocreative has the right to make subscription of the Convertible Debenture December 31 December 2021 one-off or by stages within the conversion period. Sinocreative is obliged to fully subscribe the Convertible Debenture 31 December 2021 and as an undertaking Sinocreative had paid HK$1,000,000 up front deposit to the Company. The deposit will be refunded only when Convertible Debenture 31 December 2021 are fully subscribed.

The Company will issue the portion of debenture which is fully paid. Sinocreative has the right to convert at HK$0.125 per share.

During the year ended 31 December 2018, no Convertible Debenture 31 December 2021 was issued by the Company.

During the year ended 31 December 2017, the Company issued Convertible Debenture 2021 in the aggregate principal amount of HK$227,510,000. Immediate following the issue of the Convertible Debenture 2021, 1,820,080,000 shares of the Company were issued.

The fair value of the debt component and the equity component was determined at each date of the issue of Convertible Debenture 2021 during the year ended 31 December 2017 as it meets the fixed-for-fixed criteria.

Convertible Debenture 2028

On 25 April 2018, the Company entered into a subscription agreement with China Minerals International Limited ("CMI") for an aggregate amount of HK$600 million 0% interest convertible debentures due on 25 April 2028 ("Convertible Debenture 2028"). CMI shall have the right to make subscription and conversion of Convertible Debenture 2028 in whole or in part in multiples of HK$10,000 within the conversion period.

The Company will issue the portion of debenture which is fully paid. CMI has the right to convert at HK$0.06 per share. No Convertible Debenture 2028 was issued during the current year.

28. CONVERTIBLE DEBENTURES (Continued)

It is the mutual agreement between Company and the subscribers of the convertible debentures that immediate upon each subscription, the issued convertible debenture would be converted into shares of the Company.

Upon each conversion, the fair value of the issued CDs (i.e. the amount received by the Company) was immediately be reclassified to the Company's share capital and share premium and therefore there would be no unconverted issued convertible debentures at the end of each reporting period. Accordingly as at 1 January 2017, 31 December 2017 and 31 December 2018, no financial liability or equity component is recorded in the consolidated financial statements.

29. SHARE CAPITAL

	Company			
	2018		2017	
	Number of ordinary shares	**Amount US$'000**	Number of ordinary shares	Amount US$'000
Issued an fully paid:				
At 1 January	**4,982,709,078**	**590,430**	3,162,629,078	562,721
Issue of shares upon conversion of the convertible debentures *(note)*	**–**	**–**	1,820,080,000	27,709
At 31 December	**4,982,709,078**	**590,430**	4,982,709,078	590,430

Note: During the year ended 31 December 2017, 1,820,080,000 ordinary shares were issued by exercising the convertible debentures for an aggregate principal amount of HK$227,510,000.

30. PARENT COMPANY STATEMENT OF FINANCIAL POSITION

	Notes	2018 US$'000	2017 US$'000
Non-current assets			
Property, Plant and equipment	*14*	**–**	–
Interests in subsidiaries	*17*	**377,347**	364,756
		377,347	364,756
Current assets			
Financial assets at fair value through profit or loss	*19*	**3**	3
Other receivables, deposits and prepayments		**121**	132
Cash and bank balances		**1,240**	216
		1,364	351
Current liabilities			
Other payables and accruals		**16,777**	1,168
Net current liabilities		**(15,413)**	(817)
NET ASSETS		**361,934**	363,939
CAPITAL AND RESERVES			
Share capital	*29*	**590,430**	590,430
Reserves	*30(a)*	**(228,496)**	(226,491)
		361,934	363,939

On behalf of the directors

FENG ZHONG YUN	**ZHANG XUE**
Managing Director	*Executive Director*

30. PARENT COMPANY STATEMENT OF FINANCIAL POSITION (Continued)

(a) The movement of reserve during the year is as follows:

	Translation reserve US$'000	Accumulated losses US$'000	Total US$'000
At 1.1.2017	128	(218,632)	(218,504)
Loss and total comprehensive income for the year	–	(7,987)	(7,987)
At 31.12.2017	128	(226,619)	(226,491)
Loss and total comprehensive income for the year	–	(2,005)	(2,005)
At 31.12.2018	**128**	**(228,624)**	**(228,496)**

At 31 December 2018, the Company had no reserves (2017: Nil), as calculated under the provisions of Part 6 of the Hong Kong Companies Ordinance (Cap.622), available for distribution to shareholders.

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS

(a) Net cash generated from/(used in) operating activities

	2018 US$'000	2017 US$'000
Profit/(loss) before income tax expense		
– Continuing operations	**1,350**	(1,529)
– Discontinued operation	**8,016**	(4,881)
Dividend income received	**(17)**	(15)
Interest received	**(3)**	(5)
Interest expenses	**26**	51
Fair value loss on financial assets at fair value through profit or loss	**3,058**	1,254
Loss on disposal/written off of fixed assets	**–**	400
Depreciation of fixed assets	**1,882**	2,081
Amortisation of prepaid lease payments	**38**	102
Amortisation of customer contract	**92**	41
Impairment of film right	**7,392**	–
Impairment of inventories	**400**	217
Impairment of trade receivables	**661**	–
Reversal of impairment of other receivables	**(2,859)**	–
Impairment of amount due from an investee company	**–**	799
(Gain)/loss on disposal of discontinued operation	**(8,475)**	1,302
Share of losses of a joint venture	**13**	–
Operating profit/(loss) before working capital	**11,574**	(183)
Increase in trade receivables	**(6,428)**	(5,032)
Decrease in inventories	**13,755**	1,213
Decrease in prepayments, deposits and other receivables	**12,008**	27,417
Increase in amount due from a joint venture	**(965)**	–
Decrease in amount due from an investee company	**–**	(799)
Decrease in trade payables	**(30,829)**	(51,793)
Increase in contract liabilities	**2,339**	–
Increase/(decrease) in other payables and accrued expenses	**15,411**	(3,284)
Cash generated from/(used in) operating activities	**16,865**	(32,461)
Interest paid	**(26)**	(51)
Overseas taxes paid	**(388)**	(143)
Net cash generated from/(used in) operating activities	**16,451**	(32,655)

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(b) Reconciliation of liabilities arising from financing activities:

	2018 US$'000	2017 US$'000
Finance leases *(note 27)*		
As at 1 January	**245**	415
Changes from financing cash flows:		
Capital element of obligations under finance leases	**(212)**	(170)
Total change of cash flows from financing activities	**(212)**	(170)
Other changes:		
Interest expense	**26**	25
Interest paid	**(26)**	(25)
As at 31 December	**33**	245

	2018 US$'000	2017 US$'000
Liability component of convertible debentures *(note 28)*		
As at 1 January	**–**	–
Changes from financing cash flows:		
Net proceed from issue of convertible debentures	**–**	21,264
Other changes:		
Total change of cash flows from financing activities	**–**	21,264
Conversion to shares	**–**	(21,264)
As at 31 December	**–**	–

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(c) Analysis of the inflow of cash and cash equivalents on disposal of subsidiary in 2018, details of which are set out in note 35:

	US$'000
Oil properties	72
Inventories	444
Other receivables, deposits and prepayments	385
Trade payables	(606)
Other payable and accruals	(5,065)
Provision	(3,105)
Net liabilities disposed	(7,875)
Cash consideration	600
Gain on disposal	(8,475)

On 8 March 2018, the Group disposed the entire interests in its subsidiary, Kalrez Petroleum (Seram) Limited, at a consideration of US$600,000.

	US$'000
Net cash inflow arising on disposal:	
Cash consideration received	600

31. NOTES TO THE CONSOLIDATED STATEMENT OF CASH FLOWS (Continued)

(d) Analysis of the inflow of cash and cash equivalents on disposal of subsidiary in 2017, details of which are set out in note 35:

	US$'000
Fixed assets	3,845
Goodwill	537
Prepaid lease payments	2,184
Cash and bank balances	3
Accounts receivable	1,138
Other receivables, deposits and prepayments	2,755
Other payable and accruals	(86)
Due to non-controlling interest	(376)
Exchange reserve	(19)
Non-controlling interest	(4,637)
Net assets disposed	5,344
Cash consideration	4,042
Loss on disposal	1,302

On 14 September 2017, the Group disposed the entire interests in its subsidiary, Luo Bei Xin Long Yuan Graphite Production Co. Limited, at a consideration of US$4,042,000.

	US$'000
Net cash inflow arising on disposal:	
Total cash consideration received	4,042
Cash and bank balances disposed of	(3)
	4,039

(e) Major non-cash transactions

The convertible debenture holders converted approximately US$227,510,000 convertible debentures into the Company's shares during the year ended 31 December 2017.

32. COMMITMENTS

Commitments outstanding at 31 December 2018 not provided for in the financial statements were as follows:

	2018 US$'000	2017 US$'000
(a) Total future minimum lease payments receivable under non-cancellable operating leases		
(i) on land and buildings, plant and machinery expiring:		
Within one year	**155**	210
In the second to fifth years inclusive	**582**	786
	737	996
(b) Total future minimum lease payments payable under non-cancellable operating leases		
(i) on land and buildings expiring:		
Within one year	**308**	151
In the second to fifth years inclusive	**167**	115
	475	266
(c) Capital commitments contracted but not provided for in respect of purchase of fixed assets	**–**	305

33. COMPENSATION OF KEY MANAGEMENT PERSONNEL

During the year, the remuneration of directors and other member of key management was as follows:

	2018 US$'000	2017 US$'000
Continuing operations		
Salaries, allowances and benefits in kind		
– Continued operation	**1,173**	849
– Discontinued operation	**–**	494
	1,173	1,343

34. RELATED PARTY TRANSACTIONS

During the year, the Group entered into the following transactions with related parties:

	2018 US$'000	2017 US$'000
Rental income from non-controlling interest	–	964

35. DISCONTINUED OPERATION

On 14 September 2017, the Group disposed of its entire interests in its subsidiary, Luo Bei Xin Long Yuan Graphite Production Co. Limited, at a consideration of US$4,042,000 and the entire production assets of its subsidiary, South Sea Graphite (Luobei) Co., Limited at a consideration of US$3,701,000 (collectively the "2017 Disposal"). Upon the completion of the 2017 Disposal, the Group's business in leasing of production assets was discontinued.

On 8 March 2018, the Group disposed of its entire interest in its subsidiary, Kalrez Petroleum (Seram) Limited, at a consideration of US$600,000 (the "2018 disposal"). The results of the oil business segment operated by this subsidiary and the results of the lease of production assets segments together with the related loss on disposal of Luo Bei Xin Long Yuan Graphite Production Co. Limited have been presented as discontinued operation in the consolidated financial statements.

The consolidated results of the business in leasing of production assets and the oil business were presented in the consolidated statements as discontinued operation. The consolidated statement of profit or loss distinguished the discontinued operation from continuing operations and the comparative figures have been restated accordingly.

(a) The results of the discontinued operation were as follows:

	2018 US$'000	2017 US$'000
Revenue	–	4,110
General and administration expenses	**(459)**	(4,009)
Drilling and operating expenses	–	(3,680)
Loss before income tax expense	**(459)**	(3,579)
Income tax expense	–	–
Loss for the year from discontinued operation	**(459)**	(3,579)
Gain/(loss) on disposal of discontinued operation	**8,475**	(1,302)
Profit/(loss) for the year from discontinued operation	**8,016**	(4,881)

35. DISCONTINUED OPERATION (Continued)

(b) Analysis of the cash flow from discontinued operation:

	2018 **US$'000**	2017 US$'000
Net cash generated from operating activities	–	910
Net cash from investing activities	–	293
Exchange	–	4
	–	1,207

(c) Details of disposal of subsidiary Kalrez Petroleum (Seram) Limited is shown in note 31 (c).

(d) Assets and liabilities of subsidiary Kalrez Petroleum (Seram) Limited classified as held for sale were as follows:

(i) Assets classified as held-for-sale at 31 December 2017:

	US$'000
Oil properties	82
Inventories	459
Other receivables, deposits and prepayments	826
	1,367

(ii) Liabilities directly associated with assets classified as held-for-sale at 31 December 2017:

	US$'000
Trade payables	756
Other payables and accruals	6,257
Provision	3,105
	10,118

36. FINANCIAL INSTRUMENTS

	2018 US$'000	2017 US$'000
Financial assets		
Financial assets at fair value through profit or loss		
(2017: financial assets at fair value held for trading)	**310**	3,691
Financial assets measured at amortised cost (2017: loans and receivables)		
Trade receivables	**23,460**	17,693
Other receivables and deposits	**6,525**	18,152
Cash and bank balances	**14,369**	10,165
	44,664	49,701
Financial liabilities		
Financial assets measured at amortised cost		
Trade payables	**15,837**	46,516
Other payables and accruals	**24,028**	7,425
Obligations under finance leases	**33**	245
	39,898	54,186

37. FINANCIAL RISK MANAGEMENT

Financial risk factors

The Group's activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest risk and price risk), credit risk, liquidity risk and cash flow interest rate risk. The Group intends to use a combination of financial instruments to manage its financial risks.

The risk management of the Company, and its subsidiaries, are centralised at head office level in accordance with the Group's risk management policy. The Group identifies, evaluates and monitors financial risks closely with the Group's operating units. The Group has written policies covering specific areas, such as foreign exchange risk, interest rate risk, credit risk, use of derivative financial instruments and cash management.

37. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(a) *Foreign exchange risk*

The Group's entities have only a small amount of sales that are denominated in currencies other than the functional currency of that group entities. Therefore, the Group is not exposed much to foreign exchange.

The Group's reporting currency is US dollar. Foreign currency exposures of the Group primarily arise from the Group's operations in China and United Kingdom, whose functional currency are Renminbi and Pound Sterling. Foreign exchange swaps or forward contract and foreign exchange option may be employed to minimise the net exposure to foreign currency fluctuations.

(b) *Interest rate risk*

The interest rate risk arises from debt borrowing. Borrowing issued at variable rates exposes the Group to cash flow interest rate risk while borrowing issued at fixed rates expose the Group to fair value interest rate risk.

(c) *Price risk*

The Group is exposed to equity price risk through its investment in listed equity securities in Hong Kong and OTC Bulletin Board in the United States. The management manage this exposure by maintaining a portfolio of investments with different risk and return profiles.

At 31 December 2018 it is estimated that an increase/decrease of 10%, 30% and 50% in market value of the trading securities, with all other variable held constant, profit for the year and the equity would increase/decrease by US$31,000, US$93,000 and US$155,000 respectively.

(d) *Credit risk*

The credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss.

The Group's credit risk is primarily attributable to its trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Company and its operating subsidiaries have established the credit policy to limit the credit risk exposure. Except for the sales of graphite ore, all receivables are due for settlement no more than 60 days after issue and collectability is reviewed on an ongoing basis. Specific credit terms has been offered to debtor of graphite ore. Normally, the Group does not obtain collateral from customers.

37. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(d) Credit risk (Continued)

The group's exposure to credit risk is influenced mainly by the individual characteristics of each customer rather than the industry or country in which the customers operate and therefore significant concentrations of credit risk primarily arise when the group has significant exposure to individual customers. The default risk of the industry and country in which customers operate also has an influence on credit risk but to a lesser extent. At the end of reporting period, the Group has a certain concentration of credit risk as Nil (2017: –%) and 60% (2017: 55%) of the total trade and other receivables was due from the Group's largest customer and the five largest customers respectively.

Trade receivables

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

Expected loss rates are based on actual loss experience over the past 2 years. These rates are adjusted to reflect differences between economic conditions during the period over which the historic data has been collected, current conditions and the group's view of economic conditions over the expected lives of the receivables.

During the year ended 31 December 2018, the directors individually assessed trade receivables that have significant credit risk and the ECLs of US$635,000 was recognised. For the remaining trade receivables, the Group collectively assessed that there are no significant credit risk due to the past payment history and taking into account of the sound financial performance and position of the debtors to meet contractual cash flow obligations in the near term. The ECLs rate on the remaining trade receivables that were neither past due nor impaired was assessed to be minimal and no further provision was made for the year.

37. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(d) Credit risk (Continued)

Trade receivables (Continued)

Comparative information under HKAS 39

Prior to 1 January 2018, an impairment loss was recognised only when there was objective evidence of impairment (see note 4(m)B(iv)). At 31 December 2017, no impairment was made on trade receivables. The ageing analysis of trade debtors that were not considered to be impaired was as follows:

	2017 US$'000
Not past due	9,023
Less than 30 days past due	6,441
31 to 60 days past due	2,164
61 to 90 days past due	35
91 to 120 days past due	30
	17,693

Receivables that were neither past due nor impaired related to a wide range of customers for whom there was no recent history of default.

Receivables that were past due but not impaired related to a number of independent customers that had a good track record with the group. Based on past experience, management believed that no impairment allowance was necessary in respect of these balances as there had been no significant change in credit quality and the balances were still considered fully recoverable.

Other receivables and deposits

The ECLs are based on the 12-months ECLs. However, when there has been a significant increase in credit risk since origination, the allowance will be based on the lifetime ECLs. No impairment for these financial assets as at 31 December 2018 (2017: Nil) was recognised as the amount of impairment measured under the ECLs model is insignificant.

Cash and cash equivalents

The Group expects that there is no significant credit risk associated with cash at bank since they are deposited with credit worthy financial institutions.

37. FINANCIAL RISK MANAGEMENT (Continued)

Financial risk factors (Continued)

(e) *Liquidity risk*

Liquidity risk is prudently managed by maintaining sufficient amount of available committed credit facilities. In addition, the Group actively manages and extends its debt maturity profile to ensure that the Group's maturing debt each year will not exceed the anticipated cash flow and the Group's ability to refinance the debt in that year.

The contractual maturity of the obligations under finance leases is shown on note 27 of the consolidated financial statements. The following non-derivative financial liabilities (other than obligations under finance leases) of the Group are repayable within one year or on demand.

	2018	2017
	US$'000	US$'000
Trade payables	**15,837**	46,516
Other payables and accruals	**24,028**	7,425
	39,865	53,941

The amounts of undiscounted cash flows of the above liabilities are equal to their carrying amounts.

Fair value of financial instruments

The carrying amounts of the group's financial instruments are as follow:

(i) The fair value of financial assets with standard terms and conditions and traded on active liquid markets are determined with reference to quoted market prices.

(ii) The fair value of other financial assets and financial liabilities (including derivative instruments) are determined in accordance with generally accepted pricing models based on discounted cash flow analysis using prices or rates from observable current market transactions as input.

(iii) The carrying value of bank and cash balances, trade and other receivables, amounts due from subsidiaries and trade and other payables are assumed to approximate their fair values due to the short term maturities of these assets and liabilities.

37. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurement recognised in the consolidated financial statements

The following table provides an analysis of financial instruments that are measured subsequent to initial recognition at fair value, grouped into level 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair values measurement are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 fair values measurement are those derived from inputs other than quoted prices include within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 fair values measurement are those derived from valuation techniques that include inputs for the assets or liability that are not based on observable market data (unobservable inputs).

		2018		
	Level 1	**Level 2**	**Level 3**	**Total**
	US$'000	**US$'000**	**US$'000**	**US$'000**
Recurring fair value measurements:				
Financial assets at fair value through profit or loss	**310**	**–**	**–**	**310**

		2017		
	Level 1	Level 2	Level 3	Total
	US$'000	US$'000	US$'000	US$'000
Recurring fair value measurements:				
Financial assets at fair value held for trading	3,691	–	–	3,691

During the year, The Group's policy is to recognise transfers into and out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

37. FINANCIAL RISK MANAGEMENT (Continued)

Fair value measurement recognised in the consolidated financial statements (Continued)

Reconciliation for financial instruments carried at fair value based on significant unobservable inputs (Level 3) are as follows:

Financial assets at fair value through profit or loss

	2018 **US$'000**
At 1 January	–
Transfer from level 1	**3,150**
Additions	**1,529**
Disposal	**(1,710)**
Net realised gain on disposal	**181**
Net unrealised loss	**(3,150)**
At 31 December	–

38. CAPITAL RISK MANAGEMENT

The purpose of the Group's capital management is to ensure that entities in the Group will be able to continue as a going concern while maximizing the return to shareholders through the optimization of the debt and equity balance. The Group's overall strategy remains unchanged from the previous year.

The capital structure of the Group consists of debt, which includes obligations under finance leases, cash and cash equivalents, and equity attributable to equity holders of the Company, comprising issued share capital and reserves.

The directors of the Company review the capital structure periodically. As part of this review, the directors consider the cost of capital and the risks associated with the capital. Based on recommendations of the directors, the Group will balance its overall capital structure through payment of dividends, issuance of new capital shares, convertible debentures or new debts.

The gearing ratio at the end of reporting period was as follows:

	2018 **US$'000**	2017 US$'000
Obligations under finance leases	**33**	245
Less: cash and bank balances	**(14,369)**	(10,165)
	(14,336)	(9,920)
Equity	**366,823**	363,939
Net debt to equity ratio	**N/A**	N/A

39. APPROVAL OF THE FINANCIAL STATEMENTS

The financial statements were approved by the board of directors on 30 August 2019.

FIVE-YEAR FINANCIAL SUMMARY

RESULTS

For the years ended 31 December

	2018 US$'000	2017 US$'000	2016 US$'000	2015 US$'000	2014 US$'000
Revenue	**114,874**	62,880	55,386	83,649	82,945
Profit/(loss) before income tax expense	**1,350**	(1,529)	(31,658)	(8,243)	(23,476)
Income tax expense	**(2,457)**	(498)	(234)	35	353
Loss for the year from continuing operations	**(1,107)**	(2,027)	(32,037)	–	–
Profit/(loss) for the year from discontinued operation	**8,016**	(4,881)	145	–	–
Profit/(loss) for the year	**6,909**	(6,908)	(31,892)	(8,208)	(23,123)
Non-controlling interests	**–**	2,669	(361)	(538)	(102)
Net profit/(loss) attributable to shareholders	**6,909**	(9,577)	(31,531)	(7,670)	(23,021)

ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS

As at 31 December

	2018 US$'000	Restated 2017 US$'000	Restated 2016 US$'000	2015 US$'000	2014 US$'000
Fixed assets	**29,404**	23,855	21,491	25,151	28,838
Prepaid lease payments	**2,501**	2,581	4,563	5,000	5,359
Intangible assets	**5,323**	14,784	10,748	537	537
Interest in a joint venture	**–**	–	–	–	–
Available-for-sale investment	**–**	–	6,293	293	293
Deferred tax assets	**611**	1,345	1,238	1,693	1,752
Loan receivables	**3,587**	–	–	–	–
Long term portion of trade receivable	**–**	–	–	–	211,404
Current assets	**385,030**	401,690	437,489	367,817	139,500
Total assets	**426,456**	444,255	481,822	400,491	387,683
Total liabilities	**(59,627)**	(80,310)	(135,838)	(43,311)	(52,137)
Non-controlling interests	**(6)**	(6)	(1,767)	(2,253)	(2,901)
	366,823	363,939	344,217	354,927	332,645