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

(Incorporated in Bermuda with limited liability)
(於百慕達註冊成立之有限公司)

Stock Code 股份代號：00988

ANNUAL REPORT
年報
2019

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Corporate Information

EXECUTIVE DIRECTORS
Cai Jianjun *(Chairman)*
Zhang Rui
Wong Kai Ling

NON-EXECUTIVE DIRECTOR
Qin Bo

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

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

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

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

EXECUTIVE COMMITTEE
Cai Jianjun *(Chairman)*
Zhang Rui
Wong Kai Ling

AUTHORISED REPRESENTATIVES
Wong Kai Ling
Chiu Yuk Ching

COMPANY SECRETARY
Chiu Yuk Ching

AUDITORS
CCTH CPA Limited

REGISTERED OFFICE
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG
Units 17-18, 36th Floor
China Merchants Tower
Shun Tak Centre
168-200 Connaught Road Central
Hong Kong
Website: http://www.silkroadlogistics.com.hk
E-mail: enquiry@srlhl.com

BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
Level 54, Hopewell Centre
183 Queen's Road East
Wanchai
Hong Kong

PRINCIPAL BANKERS
Citic Bank International Limited
DBS Bank (Hong Kong) Limited
The Bank of East Asia, Limited
Bank of Communications Co., Ltd

Chairman Statement

Dear Shareholders,

On behalf of the board of Directors (the “Board”), I am pleased to present the annual report of the Company and its subsidiaries (collectively, the “Group”) for the year ended 31 December 2019 (the “Year”).

In 2019, China was on track to achieve its economic and social goals envisioned in the 13th Five-Year Plan. Key breakthroughs have been made in the “three tough battles,” namely poverty reduction, effective prevention and control of financial risks, and general improvement in the environment. On the international scene, although the trade friction between China and the United States had sent jitters through the market and hurt investment confidence, the two sides secured a breakthrough with the first phase of the trade agreement, resolving part of the economic tension between the two largest economies in the world. These policy stances are conducive to economic stability and development.

During the Year, the Company has continued the implementation of our integrated trading, warehouse and logistics business model. The warehouse logistic projects in Inner Mongolia are in their early stages with huge potential. The Group is committed to bringing the projects to fruition, with top management going on site to streamline the operations and improve profitability. These efforts have forged a solid foundation for an upturn in results after the impact of the COVID-19 outbreak subsides and economic activities return to normal.

OUTLOOK AND BUSINESS STRATEGIES

After forty years of economic reform and opening up, China has reached a new stage of economic development. Internally the economy is rebalancing toward domestic consumption and is building a growth engine based on efficiency and innovation. For the rest of the world, trade and economic exposure to China is increasing, especially for countries rich in resources and those linked with China through regional supply chains.

Against this background, our investment decisions have been guided by the Belt and Road Initiative. Since 2016, the Group has established infrastructure which are strategically located along the “Belt and Road” corridor and the China-Mongolia-Russia Economic Corridor. With the apparent geographical advantages, our warehouses can serve as logistics centres and trading hubs in their respective economic influence areas. The Group is poised to seize the once-in-a-century opportunity of regional economic integration and emerge as a prominent player in the logistics and commodity trading industry.

As to product development, China’s vast appetite for energy and resources presents ample market opportunities. The bright spot in the market is clean energy given China’s ongoing adjustment of its energy mix toward natural gas and other alternatives, which entails the import of such commodities and the introduction of the related technologies and equipment for a prolonged period in the future. In this regard, the Group can capitalise on our operations and market intelligence – both local and overseas – to expand our business portfolio.

In addition to investment and product positioning, operational excellence is the cornerstone to the corporate strategy of the Group. Our value proposition for our clients is an enhanced competitive edge driven by speed and precision. Our customers can get ahead of the competition with upgraded supply-chain performance which meets and exceeds the demanding market expectations.

Chairman Statement

The Group's approach to operational excellence is all-inclusive with three components, namely staff empowerment, procedural design, and technology adoption. Of these, technology is the leading force because our clients need an end-to-end view of their forecasting, planning, manufacturing and distribution operations in order to achieve a high on-time in-full delivery performance. The Group will try to tap into China's quest for innovation to make technological advance in the areas of Internet of Things (IoT), AI and other technologies, which have enabled the logistics industry to attain significant efficiency improvement and cost saving.

In conclusion, China's rise to an economic power improves the quality of life for many and provides a fruitful ground for business and technology innovations. The Group will take full advantage of the favourable environment for business growth created by the Belt and Road Initiative and the supply-side structural reform. Moreover, we will also upgrade our preparedness of our business to ride out the bumps during the ups and downs of the business cycle. The Group will adhere to our prudent and pragmatic management principles for business development and risk control, in order to create value to our customers and shareholders alike.

Looking forward, the Group will continue to focus on strengthening our core capabilities all branches of operations and at the same time diversify our revenue stream and business portfolio. When opportunities arise, the Group will also diligently evaluate potential projects or investments in pursuit of the best interests of the shareholders.

APPRECIATION

Finally, I would like to express my deep appreciation to my colleagues who are dedicated to growing our businesses by overcoming challenges with team spirit. I would also like to express my gratitude to our shareholders, investors and partners for their confidence in the Group. I look forward to the continued support and a bright future ahead.

Cai Jianjun
Chairman and Executive Director

Hong Kong, 2 June 2020

Management Discussion and Analysis

FINANCIAL RESULTS

For the year ended 31 December 2019, the Group recorded revenue from operations of approximately HK$5,522,721,000 (2018: approximately HK$11,536,943,000), representing a decrease of 52.1% from prior year. The Group's gross profit of the operations shrink to approximately HK$34,101,000 for the year ended 31 December 2019 from approximately HK$67,830,000 recorded in 2018, with the gross profit margin remained at 0.6% with prior year. The Company recorded a loss attributable to the owners of the Company from the operations for the year ended 31 December 2019 to approximately HK$382,988,000 from that of about HK$453,358,000 recorded in the preceding year.

BUSINESS REVIEW

The year of 2019 was the hardest time in recent years. The China-U.S. trade dispute captured global attention with the effect of unnerving the markets at times. The ensuing business uncertainty seriously eroded the economy as well as the profitability of the Group. In order to tackle the challenges, in 2019, the Group focused our management effort on the realignment of our business units in light of our strategic direction. We continued to emphasise on the trading business segment through our core subsidiary Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), which is the primary source of revenue of the Group's operation. Revenue from trading segment amounted to approximately HK$5,518,313,000 in 2019, decreasing 52.1% from HK$11,522,950,000 in 2018, due to the operating constraints on the trading volume emerging in the second half of the year. The emphasis of Chinese government on environmental protection and industry overcapacity reduction remains to affect the commodity trading and also the growth of the midstream logistics industry. In addition to these concerns, our strategic investments in associates were not in full operation. The COVID-19 outbreak, these factors inevitably affected these investments and leds to further impairment was made in this year. However, in view of the ability of the Chinese government to address the current pandemic issues, the economic growth in China is expected to gain momentum imminently and continue to be the driving force for the future of our business. The Group will continue to proactively adopt technologies in compliance with the environmental protection regulations to enhance our competitive advantages.

In alignment with the Belt and Road Initiative of the Chinese government, our investment strategy is to establish a business network of commodity trading, warehousing and logistics at strategic locations. At present, the two associates in Inner Mongolia and Qian'an Logistics serve the strategic objective and offer room for future growth.

In 2019, the WTI crude oil price averaged around US$57 and returned to stability after the fluctuating movements toward the end of 2018. RockEast Energy Corporation ("RockEast") of which the Group owns about 28.19% equity interest exercised effective cost control, resulting in a profit of approximately HK$25,829,000. However, due to the high operational cost of the aged crude oil wells, the Group's US oil operation reported a loss of HK$71,296,000 in 2019. To rectify the issue, those unproductive and aged wells were disposed during the year to scale down the operation and to reduce future maintenance costs. The Group will keep closely monitoring the profitability of these oil assets and act accordingly.

The debtor's turnover day of the Group in 2019 was 20 days compared with 13 days in 2018. It is in line with the credit period of the Group assign to the customers. In future, the Group will maintain its strict credit policy to customers with more emphasis on repayment quality. If there are any irregularities in repayment, credit terms granted to debtors will be adjusted accordingly. For the adoption of new HKFRS 9, the Group has measured the expected credit losses, receivables relating to customers with known financial difficulties or significant doubt on collection of receivables are assessed individually for provision for impairment allowance. The management will continue to closely monitor the credit qualities and the collectability of the trade receivables.

Management Discussion and Analysis

OUTLOOK

Like the previous year, 2020 presents both challenges and opportunities for our businesses and investments. While, on the positive side, phase one trade deal between China and the U.S. has lifted part of the uncertainty in the market, the economic environment is clouded by the disruption caused by the COVID-19 outbreak. In China, the disease has put to halt a substantial portion of production and consumption activities across the country in the first quarter of 2020. In other countries, the severity of the impact surfaced and is being dealt with.

The Chinese government has been providing economic stimulus to meet the evolving situation. In order to buttress the economy, it has adopted monetary easing directed towards small and medium-sized enterprises which are most vulnerable financially. The Chinese government has also signaled its readiness to top up fiscal spending with the possibility of accelerating the delivery of major infrastructure projects. Likewise, foreign governments and central banks have stepped in for damage control. In the U.S., the Federal Reserve has cut interest rates to provide accommodative financial conditions to boost household and business confidence. These measures aim to soften the economic fallout of the pandemic and return the respective economies back to their natural growth paths.

The disease has created both demand and supply shocks to the economy. Across China, the supply chain disruptions are being resolved with the phased reopening of factories, resuming the flow of raw materials. From this point on, this will allow our commodities trading and logistics segments to recover gradually over the course of this year, when the availability of migrant labor and transportation capacity are returning to normal. The pace of economic recovery will hinge on how deep consumption demand is dented by the COVID-19 outbreak in China as well as the advanced economies.

For long-term business development, the Group will build on the foundation already laid with the valuable investments and infrastructure located in Hebei and Inner Mongolia. In order to achieve our goal of becoming a prominent player in commodities and resources sectors, the Group explores the best way forward which can utilize our expertise accumulated in these sectors.

In March 2020, the Group made the announcement of its intention to acquire a mining and coal sales company based in Baotou City, Inner Mongolia. The proposed acquisition, if materialised, would broaden the revenue base in Northern China given the synergies with the existing business of the Group. Looking forward, the Group will keep reviewing various options of collaboration with existing and new strategic investors to maximize return to our shareholders.

AUDIT COMMITTEE'S VIEW ON THE DISCLAIMER OF OPINION

The audit committee of the Company (the "Audit Committee") had critically reviewed the disclaimer of opinion of the auditors (the "Audit Qualifications") and also the management's position and basis on the areas that arising the Audit Qualification. The Audit Committee is in agreement with the management with respect to the Audit Qualifications and the Group's ability to continue as a going concern for the actions or measures to be implemented by the Group.

Management Discussion and Analysis

CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2019, the Group had total interest bearing bank and other borrowings and promissory notes payable in the amount of approximately HK$429,609,000 and HK$54,133,000 (31 December 2018: HK$414,412,000 and HK$52,000,000 respectively), representing an increase of HK$15,197,000 and HK$2,133,000 respectively. Both are repayable within one year.

The Group's total interest bearing bank and other borrowings of approximately HK$27,966,000 are denominated in Renminbi ("RMB") and HK$35,230,000 are denominated in HK$ are both charged at floating interest rates, and HK$366,413,000 denominated in HK$ is charge at fixed rate. The Group's cash and bank balances of the continued operations of approximately HK$4,369,000 were 22% denominated in RMB, 39% in USD and 39% in HK$. The promissory notes payable is denominated in HK$.

As at 31 December 2018 and continued in 2019, the convertible bonds with the aggregate principal amount of HK$300,000,000 was matured and become an other borrowing as it is not redeemed at maturity date. Combining the unsettled interests, the total amount of other borrowings was HK$366,413,000 (2018: HK$336,000,000). It is denominated in HK$ and bear interest at fixed interest rate of 6% per annum.

TREASURY POLICY

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

MATERIAL ACQUISITION OR DISPOSAL OF SUBSIDIARIES AND AFFILIATED COMPANIES

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

EMPLOYEES

As at 31 December 2019, the total number of employees of the Group was approximately 40 (31 December 2018: 50). Apart from the basic remuneration, discretionary bonus may be granted to eligible employees by reference to the Group's performance as well as the individual's performance. For the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operation, the Group has adopted a new share option scheme subsequent to the lapse of the old share option scheme in June 2017. As at 31 December 2019 and 31 December 2018, there were no outstanding share options granted under the new scheme.

Management Discussion and Analysis

CHARGE OF GROUP ASSETS

As at 31 December 2019, no property (31 December 2018: a property with a carrying value of approximately HK$12,688,000) is pledged as securities for the Group's banking facilities.

GEARING RATIO

As at 31 December 2019, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 63.3% (31 December 2018: approximately 39.1%). Net debt represents the aggregate amount of the Group's interest-bearing bank and other borrowings, the liability component of convertible bonds, the non-current portion of the amount loans due to related parties and promissory note less cash and cash equivalents of the Group. Total capital represents total equity attributable to the owners of the Company.

EXPOSURE TO FLUCTUATIONS IN EXCHANGE RATES AND ANY RELATED HEDGES

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

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

CONTINGENT LIABILITIES

The Group had no material contingent liabilities as at 31 December 2019 (2018: Nil).

EVENTS AFTER THE REPORTING PERIOD

On 23 March 2020, the Company entered into a letter of intent with an independent third party with an intention to acquire 70% equity interest in Baotou Longyuan Earthwork and Stone Engineering Company Limited which is principally engaged in mining and coal sales business. No formal sale and purchase agreement has been entered into as at the date of this report.

Due to the Coronavirus ("COVID-19") outbreak in early 2020, a series of precautionary and control measures have been and will continue to be implemented by the government in different countries. The Group's operations which are located in various countries might be affected. The Group will closely pay attention to this pandemic issues and the related operational and financial impacts of the Group. As at the date of this report, the Group is still in the process of assessing the impacts from the COVID-19 outbreak.

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

Biography of Directors and Senior Management

EXECUTIVE DIRECTORS

Mr. Cai Jianjun, aged 62, was appointed as a non-executive Director and president of the Company on 1 November 2017, and was re-designated as an executive Director and was appointed the chairman of the Board and the chairman of the executive committee on 25 January 2019. Mr. Cai is also the managing director of Wulanchabu Integrated Logistics Park Company Limited ("Wulanchabu"), of which the Group has 40% equity interest. Before joining Wulanchabu, Mr. Cai was the chief executive of Titan Petrochemicals Group Limited for the year 2012, he was a president of Pan American Union Oil & Gas Inc., from 2006 to 2011 and had actively participated in several large-scale petrochemical projects in China, he was the general manager of Beijing China Post Heng Ren Investment Company Limited from 2004 to 2006 and was mainly responsible for restructuring and assessing non-core assets of China Post. He was the general manager of Shen Zhen Yi Heng Investment Company Ltd. from 1993 to 2003 and was responsible for financial investments for several large construction projects in China on ports, highways, city infrastructure together with water and gas utilities. He was also the head of Southern China Office (Shenzhen), Hua Zong Economic Development Centre. Mr. Cai has extensive experience in project investment and development. Mr. Cai graduated from the Wuhan University of Technology in China.

Ms. Zhang Rui, aged 39, was appointed as an executive Director and a member of the executive committee of the Company on 25 January 2019. Ms. Zhang holds a master degree in Business Administration from Shanghai University of Finance and Economics. She was engaged in the duties relating to risk management in Ping An Bank Shenzhen Branch and China Resources SZITIC Trust Co., Ltd. successively, with over ten years of work experience in the finance industry. She joined China Huarong International Holdings Limited ("Huarong International") in 2015 as a manager, assistant to general manager and deputy general manager of post-investment management department of Huarong International. She is currently a deputy general manager of risk management department (assets security) of Huarong International. Huarong International is a subsidiary of China Huarong Asset Management Co., Ltd. ("Huarong Asset Management"), whose shares are listed on the Main Board of the Stock Exchange of Hong Kong Limited (the "Stock Exchange"). China Huarong Investment Management Limited ("Huarong Investment), a subsidiary of Huarong Asset Management, is a substantial shareholder of the Company.

Ms. Wong Kai Ling, aged 27, was appointed as an executive Director, a member of each of the nomination committee and the executive committee of the Company on 13 May 2020. Ms. Wong obtained a bachelor's degree (Hons) in finance and accounting from Durham University, United Kingdom and a master's degree in Innovation and Entrepreneurship from University of Warwick, United Kingdom. Ms. Wong served as the vice president of investment banking division of Huarong International and was responsible for project analysis and investment. She has participated in the investment and subsequent management of natural gas, oil and gas, clean energy and coal projects as well as property and logistics investment projects. Having extensive investment experiences in energy sector, she has played an important role in investment cooperation with the world's top 500 enterprises. Ms. Wong was re-designated from Huarong International to China Huarong Overseas Investment Holdings Co., Limited ("Huarong Overseas") in 2019. She is currently the vice president of asset management division of Huarong Overseas and is responsible for asset management. Huarong Overseas is a subsidiary of Huarong Asset Management, whose shares are listed on the Main Board of the Stock Exchange. Huarong Investment, a subsidiary of Huarong Overseas, is a substantial shareholder of the Company.

Biography of Directors and Senior Management

NON-EXECUTIVE DIRECTOR

Mr. Qin Bo, aged 32, was appointed as a non-executive Director on 2 June 2020. He graduated from Shanghai Jiao Tong University with a bachelor's degree in engineering, and obtained a master's degree in engineering from Tongji University. Mr. Qin joined Huarong (HK) Industrial and Financial Investment Limited ("Huarong IFI") in 2016 as deputy general manager and general manager of healthcare investment department respectively, and was responsible for investment in the medical healthcare area. Since 2020, Mr. Qin has also been the vice president of the first division of asset management of Huarong Overseas, where he is engaged in distressed investment and assets management. Before joining Huarong IFI, Mr. Qin served as an executive of investment management department of Sinopharm Group Co. Ltd., a company listed on the main board of the Stock Exchange. Mr. Qin has extensive experience in assets investment and management. Huarong IFI and Huarong Overseas are subsidiaries of Huarong Asset Management. Huarong Investment, a subsidiary of Huarong Overseas, is a substantial shareholder of the Company.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Ms. Choy So Yuk, *BBS, JP*, aged 69, was appointed as an independent non-executive Director on 5 June 2009 and is also a member of each of the audit committee, the nomination committee and the remuneration committee of the Company. She obtained her Bachelor of Science and Master of Philosophy degrees from the University of Hong Kong in 1974 and 1980 respectively. Ms. Choy was the founding managing director of SHK International Services Limited (which was subsequently acquired by Ms. Choy and changed its name to Oriental-Western Promotions Limited). Ms. Choy holds a wide variety of political, social and academic positions, such as a deputy of the National People's Congress of China and a director of Fukien Chamber of Commerce Education Fund Limited. Ms. Choy was a member of the Fujian Provincial Committee of the Chinese People's Political Consultative Conference and a member of the Legislative Council of Hong Kong from 1998 to 2008. Ms. Choy was appointed the Justice of the Peace in 2005 and was awarded the Bronze Bauhinia Star by the Government of the HKSAR in 2013. Ms. Choy was an independent non-executive director of Evershine Group Holdings Limited and Best Mart 360 Holdings Limited, both of which are listed on the Stock Exchange. Ms. Choy was an independent non-executive director of Blockchain Group Company Limited from August 2002 to October 2017. On 19 November 2018, Blockchain Group Company Limited was ordered to be wound up by the High Court of Hong Kong and trading in its shares was suspended.

Biography of Directors and Senior Management

Mr. Leung Yuen Wing, aged 52, was appointed as an independent non-executive Director on 1 November 2012. He is also the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee of the Company. Mr. Leung is an associate member of the Hong Kong Institute of Certified Public Accountants. He had held managerial positions in various renowned accounting firms, an investment bank and enterprises including listed companies and had been an independent non-executive director of a company listed on the main board of the Stock Exchange for about 10 years to June 2013. Mr. Leung is currently the chief financial officer of a glass manufacturing company. Mr. Leung had been the company secretary and authorized representative of the Company, and he left the Group in February 2010.

Mr. Wu Zhao, aged 42, was appointed as an independent non-executive Director on 16 June 2016. He is also a member of the audit committee, the nomination committee and the remuneration committee of the Company. Mr. Wu obtained a bachelor degree in Engineering (Chemical) from the University of Queensland, Australia. He also obtained a master of commerce in applied finance and a master of information technology from the University of Queensland, Australia. He has extensive experience in finance, information technology, investment and funds management. He is currently an independent non-executive director of Royal Century Resources Holdings Limited (stock code: 8125), a company listed on GEM of the Stock Exchange.

Mr. Zhu Dengkai, aged 41, was appointed an independent non-executive Director on 1 January 2017. He is also the chairman of the remuneration committee, and a member of each of the audit committee and the nomination committee. Mr. Zhu obtained a bachelor of laws degree in international law from Zhongnan University of Economic and Law in the PRC in 2000, a master of laws degree in European law from Université Paris1–Panthéon Sorbonne in France in 2004, and a master of laws degree in international law from the school of law of Renmin University of China in 2005. He has over 10 years of experience as a practicing lawyer and is a registered as a registered lawyer in the PRC. He was a practicing lawyer in King & Wood from April 2005 to August 2007 and in Jun He Law Offices from September 2007 to August 2010. Mr. Zhu is currently a senior partner in Zhonglun W&D Law Firm. He is also a member of China Lawyers Association and the contact person of a global lawyers union, INTERLAW, in Beijing, the deputy chairman and deputy editor of Taihe Global Institute and the chairman of Beijing Benevolent Foundation.

Biography of Directors and Senior Management

Mr. Liu Wei, aged 65, was appointed as an independent non-executive Director on 1 November 2017, he is also the chairman of the nomination committee of the Company. Mr. Liu obtained a bachelor degree in Computing Mathematics from Jilin University and a master degree in Applied Mathematics from Dalian Maritime University. He is currently a professor and tutor of doctoral students in Dalian Maritime University. Mr. Liu was the Dean of the Professional Degree Education College in Dalian Maritime University, Dean of the Advanced Research Institute of Transportation in Dalian Maritime University and Dean of Shenzhen Research Institute in Dalian Maritime University and mainly engaged in researches on Applied Mathematics, Management Science and Engineering. He has completed a number of scientific research projects at provincial and ministerial levels which are supported by the National Natural Science Foundation of China. His research works titled "Decision Support System for Enhancing Economic Benefits of Tianjin Port" and "Research on the Life Cycle of Port as Driving Economy" were awarded the Third Prize in Technology Advancement by the Ministry of Communications of Liaoning Province and the Third Price in Technology Advancement of Liaoning Province. Mr. Liu also took a leading role in completing the project titled "Arithmetic Methodology of Extenics Information and its Applications in the Logistics Information System" funded by the National Natural Science Foundation of China; he also led the charge in preparing for the technological projects under the Shenzhen Communications Bureau, including "Studies on the Indication System for Comprehensive Competitiveness Review of Shenzhen Port" and "The Thirteenth Five-Year Plan of Shandong High-Speed Logistics Group". Mr. Liu is currently the Officer of Academic Committee in Extenics of Chinese Association of Artificial Intelligence, a member of the Disciplines Evaluation Panel of the Degree Committee of Liaoning Province and the Head of the School of Applied Mathematics in Dalian Maritime University.

Mr. Zou Mingwu, aged 65, was appointed as an independent non-executive Director on 25 January 2019. Mr. Zou holds a master degree and is a senior economist. Since 2007, he has been a senior vice president and president of China region of Baoneng Group in Shenzhen, as well as the chairman of Baoneng City Development and Construction Company Limited (寶能城市發展建設集團) in Shenzhen. From 1994 to 2007, he served as the general manager and chairman of Shahe Industrial Co., Ltd. (a company listed on the Shenzhen Stock Exchange with stock code: A0014). From 1990 to 1994, he served as a deputy general manager of Shenzhen Properties & Resources Development (Group) Ltd. (Shenzhen Properties A (深物業A). From 1987 to 1990, he served as a researcher in the research center of Hong Kong Office of Xinhua News Agency. He had studied in the Party School of the Central Committee of the Communist Party of China, Marxism and Leninism in Beihua University Teacher's College and in the postgraduate programme of Beihua University Teacher's College and Jilin University.

Biography of Directors and Senior Management

SENIOR MANAGEMENT

Dr. Fang Gang, aged 62, was appointed as a Chief Executive Officer of the Company on 11 April 2019. Dr. Fang served as the country manager in China for Advanced Ceramic and Modules of Dutch Royal Philips Components, served as the general manager in customer services for China for a Dutch company ASML, as well as served as the general manager in China for a German company Dussmann Property Management Company. Dr. Fang also served as the chief executives in public companies. He was the chairman and general manager of Oriental Energy Co., Ltd. in China, the President of Tianfa Petroleum Co., Ltd. in China, and the chairman and the chief executive officer of a Canadian public company, Anterra Energy Inc.. Dr. Fang also worked as business partners with many Chinese, European and American enterprises in different areas, such as environment protection industry, pipeline coating technology and equipment, trade of agriculture products, as well as renewable energy. Worked as the chief executives of the energy companies particularly, Dr. Fang's business activities involved many countries worldwide. Dr. Fang's experience in the field of financial investment includes initial public offering, investment banks, mergers and acquisitions, corporate debt restructuring and financing. Dr. Fang has more than 22 years of executive management experience for different companies. In respect of academic qualification, Dr. Fang worked with Xi'an Jiaotong University of China in teaching mathematics, worked as a researcher in Eindhoven University of Technology in coding theory. He holds both a BSc in numerical mathematics and an MSc in applied mathematics from the Xi'an Jiaotong University of China, and a PhD in coding theory from the Eindhoven University of Technology of the Netherlands.

Mr. Kwok Kam Tim, aged 43, joined the Company in 2008 and is currently the chief financial officer of the Company. He was the company secretary and authorized representative of the Company from February 2010 to March 2013. Mr. Kwok is a fellow member of the Association of Chartered Certified Accountants, the Hong Kong Institute of Certified Public Accountants, the Hong Kong Institute of Chartered Secretaries, and the Institute of Chartered Secretaries and Administrators. Mr. Kwok holds a Bachelor of Engineering degree from The Hong Kong University of Science and Technology, a Bachelor of Arts degree in Accountancy and a Master degree in Corporate Governance from The Hong Kong Polytechnic University. He had worked in an international accounting firm and has over 16 years of experience in accounting, auditing and financial management. Currently, Mr. Kwok is an independent non-executive director of Huasheng International Holding Limited (Formerly known as "Newtree Group Holdings Limited") (stock code: 1323), the shares of which is listed on the main board of the Stock Exchange. He was also the independent non-executive director of Capital Finance Holdings Limited (stock code: 8239) during October 2009 to September 2015, and the independent non-executive director of China Ocean Fishing Holdings Limited (Formerly known as "Sky Forever Supply Chain Management Group Limited") (stock code: 8047) from June 2014 to July 2014, both companies were listed on the growth enterprise market of the Stock Exchange.

Corporate Governance Report

For the year ended 31 December 2019

The board of directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2019.

A. CORPORATE GOVERNANCE PRACTICES

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

In the opinion of the directors of the Company (the "Directors"), the Company has complied with the respective code provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") during the year ended 31 December 2019, except for the following deviations:

Code Provision A.2.1

Under code provision A.2.1, the role of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Ding Zhiyi acted as the chairman of the Company and the chief executive officer of the Company from 1 November 2017 to 25 January 2019 on which he resigned as a Director, the chairman and chief executive officer of the Company. After vesting the role of chairman and chief executive officer in one person for more than one year, the Company noted that separation of the two roles would be more appropriate and beneficial to the Company. By separation of the roles, the chairman can focus on the strategic planning and development of the Group and the chief executive officer is responsible for the day to day management, oversees the Group's operational activities and implementation of development plans. On 25 January 2019. Mr. Cai Jianjun ("Mr. Cai") re-designated from non-executive Director to executive Director and was appointed the chairman of the Company (the "Chairman"). Dr. Fang Gang was appointed the chief executive officer of the Company with effect from 11 April 2019. The role of the chairman and the chief executive officer is separate and not performed by the same person.

Code Provision A.4.1

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

Code Provisions A.6.7

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings. The independent non-executive Directors, Mr. Zhu Dengkai, and Mr. Zou Mingwu, and the non-executive Director, Mr. Zhou Hao had not attended the annual general meeting held on 4 June 2019 ("2019 AGM") as they were not in Hong Kong or due to other commitments which must be attended to by them. The Chairman, Mr. Cai and the independent non-executive Directors, Mr. Leung Yuen Wing, Ms. Choy So Yuk, Mr. Wu Zhao and Mr. Liu Wei had attended the 2019 AGM.

Code Provision A.7.1

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

B. DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the code of conduct regarding directors' securities transactions set out in the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules (the "Model Code"). Following specific enquiry by the Company, all Directors (except Mr. Cai, the Chairman) confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2019. Details of non-compliance of Mr. Cai during the year disclosed below:

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

Mr. Cai, through his company, inadvertently and unintentionally breached the relevant rules for dealing of shares of the Company during the black-out period. Save and except the Dealing, Mr. Cai has confirmed to the Company that (i) he has not otherwise acquired, disposed of or dealt in any shares in the Company at the material time, and (ii) he has not received any notice in relation to the exercise of the put option pursuant to the Put Option Deed by Huarong Investment. As a remedial action, Mr. Cai has served a formal written notice to the Board, and a separate board meeting has been convened to record the circumstances. In addition, the Company has provided a training conducted by a professional law firm to Mr. Cai for the purpose of reinforcing his knowledge and awareness of the requirements and restrictions regarding dealings of shares of the Company and his duties as a director in general.

The Company has paid due regard to the aforementioned non-compliance incident. With a view to ensuring compliance with the Listing Rules and the Model Code, (i) a copy of the Model Code and a sample notification form in respect of dealing of shares of the Company were circulated for all directors' reference, and (ii) the Company provided a briefing of the Model Code and the procedure of notification in dealing of shares of the Company to all Directors in March 2019 and reminded them of their obligations under the Model Code.

C. BOARD OF DIRECTORS

During the year, there were changes to the composition of the Board. On 25 January 2019, Mr. Ding Zhiyi resigned as executive Director, the chairman of the Board and the chief executive officer of the Company, and Mr. Cai was re-designated from non-executive Director to executive Director and was appointed the Chairman, Ms. Zhang Rui was appointed as an executive Director, Mr. Chan, Victor Sun Ho was appointed as a non-executive Director and Mr. Zou Mingwu was appointed as an INED. On 28 February 2019, Mr. Chan, Victor Sun Ho resigned as a non-executive Director and Mr. Zhou Hao was appointed as a non-executive Director. Mr. Zhao Cheng Shu retired as executive Director in accordance with the bye-laws of the Company at the 2019 AGM. Subsequent to the reporting period, Mr. Wang Xiusong and Mr. Zhou Hao resigned as an executive Director and non-executive Director respectively and Ms. Wong Kai Ling and Mr. Qin Bo was appointed as an executive Director and a non-executive Director respectively.

Corporate Governance Report

For the year ended 31 December 2019

The Board currently comprises three executive Directors, namely Mr. Cai (the Chairman), Ms. Wong Kai Ling and Ms. Zhang Rui; one non-executive Director, namely Mr. Qin Bo, and six INEDs, namely Ms. Choy So Yuk, Mr. Leung Yuen Wing. Mr. Wu Zhao, Mr. Zhu Dengkai, Mr. Liu Wei and Mr. Zou Mingwu.

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

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

The Company will from time to time review the structure and composition of the Board to ensure that a balance of power and authority between the Board and the management is appropriately maintained for the Group.

During the year, 11 Board meetings and the 2019 AGM were held. The attendance records of individual Director are as follows:

Directors	**Board Meetings No. of meetings attended/held**	**2019 AGM No. of meeting attended/held**
Executive Directors		
Mr. Cai (re-designated from non-executive Director to executive Director and was appointed the Chairman on 25 January 2019)	11/11	1/1
Mr. Wang Xiusong (resigned on 13 May 2020)	11/11	0/1
Ms. Zhang Rui (appointed on 25 January 2019)	9/10	0/1
Mr. Ding Zhiyi (resigned as executive Director and the Chairman on 25 January 2019)	0/1	0/1
Mr. Zhao Cheng Shu (retired at the 2019 AGM)	6/8	0/1
Non-executive Directors		
Zhou Hao (appointed on 28 February 2019 and resigned on 2 June 2020)	4/5	1/1
Chan, Victor Sun Ho (appointed on 25 January 2019 and resigned on 28 February 2019)	5/5	0/1
Independent Non-executive Directors		
Ms. Choy So Yuk	10/11	1/1
Mr. Leung Yuen Wing	10/11	1/1
Mr. Wu Zhao	10/11	0/1
Mr. Zhu Dengkai	8/11	0/1
Mr. Liu Wei	11/11	1/1
Mr. Zou Mingwu (appointed on 25 January 2019)	6/10	0/1

Corporate Governance Report

For the year ended 31 December 2019

Throughout the year ended 31 December 2019, the Company met at all times the requirements of the Listing Rules to have at least three INEDs representing at least one-third of the Board and with at least one INED possessing appropriate accounting and financial management expertise and professional qualifications.

The Company has received from its INEDs annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules. Each of the INEDs (except Ms. Choy So Yuk) has served the Company for not more than 9 years. The shareholders of the Company had approved the re-election of Ms. Choy So Yuk as an INED at the 2019 AGM. The Nomination Committee and the Board has assessed their independence and concluded that all the INEDs are independent.

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

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

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

During the year under review, the Company has provided reading materials to the Directors to update them on the latest developments and changes to the Listing Rules including Listing Rules amendments and some practical issues to consider and Directors’ suitability and duties, the applicable laws and regulations relating to directors’ duties. Mr. Leung Yuen Wing also attended other seminars/training courses relevant to his profession and duties as a director. Mr. Cai has received a training conducted by a professional law firm in relation to the requirements and restrictions regarding dealings of shares and duties as a director in general.

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

Corporate Governance Report

For the year ended 31 December 2019

D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

As mentioned above, for the period under review, Mr. Ding Zhiyi acted as the Chairman of the Company and the chief executive officer of the Company from 1 January 2019 to 25 January 2019 on which he resigned as an executive Director, the Chairman and chief executive officer of the Company. Thereafter, the role of the chairman was taken up by Mr. Cai, who was redesigned from non-executive Director to executive Director and was appointed the Chairman. The office of chief executive officer was vacant until the appointment of Dr. Fang Gang as chief executive officer in April 2019. This arrangement was because the Company noted that separation of the two roles would be more appropriate and beneficial to the Company. By separation of the roles, the Chairman can focus on the strategic planning and development of the Group and the chief executive officer is responsible for the day to day management, oversees the Group's operational activities and implementation of development plans. Currently the role of the Chairman and the chief executive officer is separate and not performed by the same person.

E. NON-EXECUTIVE DIRECTORS

As mentioned in Paragraph A above, two of the existing INEDs, mainly Ms. Choy So Yuk and Mr. Leung Yuen Wing are not appointed for a specific term while the remaining INEDs are appointed for a term of 3 years. However, all Directors are subject to the retirement provisions in the Bye-laws which provides that every Director (including the INEDs) shall be subject to retirement at least once every three years.

F. BOARD COMMITTEES

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

Executive Committee

Mr. Ding Zhiyi ceased to act as the chairman of the executive committee of the Company (the "Executive Committee") following his resignation as an executive Director on 25 January 2019. Subsequent to the period under review, on 13 May 2020, Mr. Wang Xiusong resigned as an executive Director and ceased to be a member of the Executive Committee and Ms. Wong Kai Ling was appointed as an executive Director and a member of the Executive Committee. Currently, the Executive Committee comprises three executive Directors, namely Mr. Cai (acted as the chairman), Ms. Wong Kai Ling and Ms. Zhang Rui. The Executive Committee was established to assist the Board in execution of its duties and to facilitate effective management. It has a written terms of reference under which certain functions, including the daily operation and management functions have been delegated to it.

Remuneration Committee

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

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

(i) make recommendations to the Board on the Company's policy and structure for all Directors and senior management remuneration and on the establishment of a formal and transparent procedure for developing remuneration policy;

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

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

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

During the year, the Remuneration Committee held 2 meetings and the attendance of individual members of the Remuneration Committee at the meetings is set out below:

Committee Members	**Number of meetings attended/held**
Mr. Zhu Dengkai *(chairman)*	1/2
Ms. Choy So Yuk	2/2
Mr. Leung Yuen Wing	2/2
Mr. Wu Zhao	2/2

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

Nomination Committee

Mr. Ding Zhiyi ceased to act as the chairman of the nomination committee of the Company (the "Nomination Committee") after his resignation as executive Ddirector on 25 January 2019. Subsequent to the period under review, on 13 May 2020, Mr. Wang Xiusong ceased to act as a member of the Nomination Committee and Ms. Wong Kai Ling was appointed as a member of the Nomination Committee. Currently, the Nomination Committee comprised Mr. Liu Wei (an INED and was appointed the chairman of the Nomination Committee to fill the vacancy left after the resignation of Mr. Ding Zhiyi), Ms. Wong Kai Ling (an executive Director), and Ms. Choy So Yuk, Mr. Leung Yuen Wing, Mr. Wu Zhao, and Mr. Zhu Dengkai (all being INEDs). The terms of reference of the Nomination Committee is available on the respective websites of the Company and the Stock Exchange.

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

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

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

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

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

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

The Company has adopted a Director Nomination Policy setting out the criteria and process in the nomination and appointment of Directors and ensure that the Board has a balance of skills, experience and diversity of perspectives appropriate to the Company. In assessing the Board composition and identifying and selecting suitable candidates for directorships, the Nomination Committee would take into account various aspects set out in the Board diversity policy, including but not limited to gender, age, cultural, educational background, professional qualifications, skills, knowledge and industry experience that are relevant to the Company's businesses and corporate development and strategy, the candidate's reputation for integrity and independence (as appropriate). The Nomination Committee would select the appropriate candidate and make recommendation to the Board for consideration. The Nomination Committee would also review the implementation of the Board diversity policy in achieving the objectives set for the benefits of the Company.

During the year, the Nomination Committee held 3 meetings and the attendance of individual member of the Nomination Committee at the meeting is set out below:

Committee Members	Number of meetings attended/held
Mr. Liu Wei (act as the chairman from 25 January 2019)	3/3
Ms. Choy So Yuk	3/3
Mr. Leung Yuen Wing	3/3
Mr. Wu Zhao	3/3
Mr. Zhu Dengkai	1/3
Mr. Wang Xiusong (ceased to be a member on 13 May 2020)	3/3

In 2019, the Nomination Committee reviewed the structure, size and composition of and diversity (including the evaluation of skill, knowledge, cultural and education background, professional experience, age, gender and length of services of the Board members) of the Board and the Board Diversity Policy. The Nomination Committee considered the Board to possess a diversity of perspectives which is appropriate to the Group's requirement. The Nomination Committee also reviewed the independence of INEDs, and discussed and approved recommending to the Board the appointment of executive Directors, non-executive Directors and an independent non-executive Directors. The Nomination Committee considers the appropriate balance of diversity perspective of the Board is maintained.

Board Diversity Policy

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

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

Audit Committee

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

The major roles of the Audit Committee are as follows:

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

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

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

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

(v) review connected party transactions.

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

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

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

The audited financial statements and the annual report of the Company for the year ended 31 December 2019 have been reviewed by the Audit Committee.

G. CORPORATE GOVERNANCE FUNCTIONS

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

H. AUDITORS' REMUNERATION

For the year under review, the fees in respect of audit services provided to the Company and its subsidiaries by the auditor of the Company amounted to HK$900,000 (2018:HK$1,480,000), and there is no other non-audit service provided to the Company for the year 2019 (2018: HK$100,000).

I. FINANCIAL REPORTING

The Directors acknowledged their responsibility for preparing consolidated financial statements for each financial period which give a true and fair view of the state of affairs of the Group and its results and cash flows for the relevant financial period. In preparing the consolidated financial statements for the year ended 31 December 2019, the Directors ensured that the consolidated financial statements have been prepared in accordance with statutory requirements and applicable accounting standards and have applied them consistently; made judgments and estimates that are prudent, fair and reasonable.

As at 31 December 2019, the current liabilities of the Group comprises:

1. the Group issued a convertible bond in an amount of HK$300,000,000 to a third party and the convertible bonds had not been repaid upon maturity. The principal amount of the convertible bonds and accrued interest in a total amount of approximately HK$366,413,000 reclassified as loan; and

2. the Group issued a promissory note for settlement of part of the consideration for acquisition of a subsidiary, the principal and interest totally HK$54,133,000.

Accordingly, the current liabilities exceed current assets by HK$433,195,000 and the Group incurred net loss amounted to HK$378,812.000 for the year ended 31 December 2019. The Directors considered it appropriate for the preparation of the consolidated financial statements on a going concern basis after taking into account of the following circumstances and measures to be implemented.

The management will closely monitor the financial position of the Group and the Directors will make every effort (a) to secure funds as necessary to finance the business operations of the Group for the foreseeable future; and (b) to negotiate with the lender of the other borrowings (previously regarded as the holder of the convertible bonds) and the holder of the promissory note payable for the extension of repayments of the other borrowings and the promissory note to a date when the Group has adequate working capital to serve the repayments.

Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to restate the values of assets to their estimated recoverable amounts, to provide further liabilities that might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively.

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

J. RISK MANAGEMENT AND INTERNAL CONTROL

The Board has overall responsibilities for the risk management and internal control systems of the Group on an ongoing basis, and for reviewing its effectiveness. The Board is also responsible for establishing and maintaining appropriate and effective risk management and internal control systems. The established systems are designed to manage rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss and will be reviewed annually.

During the year under review, the Board has conducted a review of the effectiveness of the risk management and internal control systems of the Group, covering financial, operational, compliance and risk management aspects of the Group in order that the systems are practical and effective in providing reasonable assurance in relation to protection of material assets and identification of business risks. The systems were considered adequate in general to safeguard the interests of the shareholders' investment.

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

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

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

K. COMPANY SECRETARY

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

L. SHAREHOLDERS' RIGHTS

Convening a general meeting

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

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

Putting enquiries to the Board

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

Putting forward proposal at general meeting

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

M. COMMUNICATION WITH SHAREHOLDERS

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

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

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

N. INVESTOR RELATIONS

There was no change to the Company's Bye-laws during the financial year 2019. A copy of the latest Bye-laws are posted on the websites of the Company and the Stock Exchange.

Environmental, Social and Governance Report

REPORTING SCOPE

Silk Road Logistics Holdings Limited ("Silk Road Logistics") is an investment holding company. Silk Road Logistics and its subsidiaries (The "Group") are principally engaged in logistics and warehousing, commodity trading, oil exploration, production and sale businesses. In view of the rapid growth of the logistics industry in China, the Group began to expand its logistics and warehousing business in 2015, which has become one of the major Group businesses. The scope of this report includes the Hebei logistics centre located in Qianan of Hebei province, which constitutes an important part of the Group's logistics and warehousing business. For ease of reading, it is hereinafter referred to as "The Company" throughout this report.

The reporting period of this Environmental, Social and Governance Report was from 1 January 2019 to 31 December 2019. This report was prepared in accordance with the provisions specified in the "Environmental, Social and Governance Reporting Guide" issued by The Stock Exchange of Hong Kong Limited, and it is published once a year.

BASIS OF PREPARATION

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

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

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

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

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

ABOUT THE GROUP

The Group is principally engaged in logistics and warehousing, commodity trading, oil exploration, production and sales businesses. The Group is committed to carrying out business operations in an environmentally responsible way, and is therefore dedicated to mitigation of environmental pollution, energy conservation, emission reduction as well as emphasis on recycling. All these aims to contribute for environmental protection and compliance with national and regional environmental protection regulations, in the hope of substantially reducing pollution from the daily operations.

STAKEHOLDER ENGAGEMENT

The Group is striving to compliance with legal and regulatory requirements, and has been maintaining a high level of corporate disclosure. We believes stakeholder value can be enhanced and created through clear communication of the Company's strategy, business development and prospects.

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

Approaches of communication between the Group and stakeholders

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

Environmental, Social and Governance Report

ENVIRONMENT

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

Emission Control

As the world economy and social development enter a "new normal" pattern, environmental protection is very important to the sustainable development of the Company's business under the general trend towards green development, recycling development and low-carbon development. In view of this, we closely monitor environmental management issues in the operation process and are striving to adopt measures for mitigation of environmental impacts as well as fulfillment of the continual commitment on environmental protection.

The Company has been monitoring exhaust gas emissions from various equipment items and exerting control of exhaust gases, for example, the Company's vehicles must be inspected within a specified period as required under relevant regulations to assure testing results of exhaust gases from the Group's vehicles are passed.

Exhaust gas emissions from the Company for the 2019 and 2018 reporting years were summarized as follows:

	2019	2018
Nitrogen oxides (NOx) (kilogram)	**8.22**	28.40
Sulfur oxides (SOx) (kilogram)	**0.55**	0.83
Particulate Matters (PM) (kilogram)	**0.60**	2.72

Monitoring of Greenhouse Gases (GHG) Emission

According to the business of the Company, the sources of GHG emission come from electricity consumption and emission from vehicles.

The following table sets forth the total volume and intensity of GHG emissions from the Company for the 2019 and 2018 reporting years:

	2019	2018
GHG emission volume (tonne carbon dioxide equivalent)		
Scope 1	**90.9**	214.6
Scope 2	**873.8**	1,049.6
Total	**964.7**	1,264.2
Number of operating facilities	**5**	6
GHG emission intensity (tonne carbon dioxide equivalent/operating facility)	**192.9**	210.7

Remark: Indoor warehouse originally used for storage of loose cargoes has been changed for storing steel materials, etc., consequently some facilities has stopped operating in 2019 and the number of operating facilities was reduced by one as compared to last year.

Reduction in Business Travel

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

Waste Management Policy

The Company adopts appropriate reduction measures against various types of wastes, for minimizing the hazards incurred by wastes to the environment. Under the applicable circumstances, relevant wastes would be categorized and recycled for effective reduction of waste quantities and fulfillment of corporate social responsibility.

Handling of Hazardous Wastes

Since logistics and warehousing are the principal business of the Company, hazardous waste would not be generated under the normal situation.

Handling of Non-hazardous Wastes

The Company's major type of non-hazardous waste is domestic garbage. For reducing those unnecessary wastes generated during operation, we are striving to identify the recyclable wastes and to allocate resources for recycling them as much as possible.

Employees would regularly collect and handle solid wastes according to their categories. Recyclable wastes, such as papers, plastics, etc. would be sent to recyclers for appropriate handling.

The following table sets forth the total amount and intensity of non-hazardous wastes generated by the Company during the 2019 and 2018 reporting years.

	2019	2018
Total amount of non-hazardous wastes generated (tonne)	**4.01**	4.92
Number of operating facilities	**5**	6
Emission intensity per operating facility (tonne/operating facility)	**0.80**	0.82

Remark: Indoor warehouse originally used for storage of loose cargoes has been changed for storing steel materials, etc., consequently some facilities has stopped operating in 2019 and the number of operating facilities was reduced by one as compared to last year.

Use of Resources

The Company is concerned about environmental protection and has been actively implementing appropriate measures to raise efficiency in use of resources:

Energy Conservation

For energy conservation, the Company has adopted various strategies for effective minimization of damage to the ecological environment. Also, relevant awareness promotion has been arranged on the topics of energy conservation and emission reduction, these help employees develop the working habits on energy conservation and environmental protection.

Energy conservation measures

(1) Adoption of LED energy-saving lighting: Company's road lamps have all been replaced to LED lighting. There were totally 34 sets of LED lightings replaced in this year.

(2) Power resources were controlled according to the internal "Rules Governing Energy Conservation and Consumption Reduction" which required each employee to participate in activities of energy conservation and emission reduction. In this year, the status of implementation by employees was generally good, air-conditioning was controlled within appropriate temperature range, and employees switched off electrical devices upon off-duty time.

(3) Employees have been educated to switch off lighting, fans, and air-conditioners, etc. upon the unused period. During the year, there were 63 employees participating in the relevant environmental trainings.

(4) Geothermal pump was installed to utilize geothermal energy on the surface of the earth, for energy exchange and heating up circulatory water within the central air-conditioning system. Water used in geothermal pump for heating circulatory water amounted to 50 cubic metre per hour. The principle behind is to utilize the difference in temperature between underground water and surface water for heating the water within geothermal pump. Heated water would then be discharged to underground and water would not be lost nor polluted during the process.

(5) In event of any operational issues with electrical equipment, employees are required to report to their department heads timely, for arranging repairs as soon as possible to reduce energy wastage.

Water Conservation Policy

During daily operation, the main source of water consumption by the Company is domestic usage. The Company adopts appropriate equipment and administrative measures, including automatic flushing systems installed in washrooms, and posting of labels carrying water conservation message such as "After handwashing, Please turn off the tap" and "Water conservation, Everyone's responsibility" in staff's rest rooms, these help remind employees on water conservation. In the year of 2019, the activity of growing vegetables has been stopped and irrigation was no longer required, consequently the amount of water consumption was greatly reduced as compared to last year.

Moreover, in event of any operational issue or leakage with equipment consuming water, employees are required to report to their department heads timely, for arranging repairs as soon as possible to reduce water wastage. Also, amount of water consumption would be reported to relevant department on monthly basis, for regular evaluation of effectiveness on water conservation.

Green Office

The Company is striving to promoting green office, which advocates paperless practices in the daily operation, increases the use of electronic files in replacement of printout, adopts OA office systems to check approval procedures for contracts and payments, as well as SAP systems to integrate logistics system business with financial data. All these reduce the use of printouts and paper consumption. Employees are also required to proceed double-sided printing and reuse single-sided printed paper with the aim to reduce paper use.

Adoption of Packaging Materials

The Company's principal business is logistics and warehousing, therefore no packaging of finished goods is required under normal situation. Only when there is operational need, small amount of paper materials is used to enhance the stability and safety of cargoes.

The following table sets forth the total amount and intensity of consumption by the Company for the main resources during the 2019 and 2018 reporting years:

	2019	2018
Number of operating facilities	**5**	6
Gasoline consumption by mobile sources Note 1 (litre)	**2,644**	1,958
Consumption intensity (litre/operating facility)	**529**	326
Diesel consumption by mobile sources (litre)	**31,792**	49,515
Consumption intensity (litre/operating facility)	**6,358**	8,253
Electricity consumption by facilities (kWh)	**902,736**	1,020,380
Consumption intensity (kWh/operating facility)	**180,547**	170,064
Water consumption (cubic metre)	**9,753**	24,018
Consumption intensity (cubic metre/operating facility)	**1,951**	4,003
Paper consumption Note 2 (tonne)	**0.98**	0.28
Consumption intensity (tonne/operating facility)	**0.20**	0.05

Note 1: In 2019, there was increase in the number of private cars, which lead to increase in gasoline consumption as compared to last year.

Note 2: In 2019, paper was not consumed for packaging of finished goods, and mainly for the use of printing material bills.

Environment and Natural Resources

The Company owns five warehouses, of which four are enclosed style and one is an open-air style. The Company manages warehouse in the manner of mitigating environmental impacts and the operation would proceed with reference to the relevant environmental regulations, including "Regulations for Environmental Management in Construction Projects", "Tentative Practices for Environmental Inspection Acceptance for completion of Construction Projects", "Work Instruction for Approval of Environmental Impact Assessment Documentation and Inspection Acceptance of Environmental Facilities developed by Construction Enterprises in Construction Projects (tentative)". Open-air warehouse is used to store goods like steel materials which have low impact on the environment, while the enclosed warehouses are used for storing bulk goods.

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

In addition, the Company proceeds in compliance with the local regulations related to green space rate, pursuant to "Regulation for Tangshan Urban and Rural Planning" and "Technical specification for Qianan City Planning Management". In 2019, the required green rate was generally around 5% to 20%, while the Company hit high with green space rate up to 18.2%.

During the reporting period, the Company did not identify any legal non-compliance or complaint related to emission or other environmental regulations.

Policy for responding to Climate Change

Management conducts regular evaluation of the risks incurred from climate change to the Company, including the possible risk of flooding disaster incurred during rainy season. During the process it has identified the natural disaster and extreme weather possibly incurred from the climate change, and has eventually determined the flooding disaster management plan in response to the possible emergencies. Also, property insurance has been procured for alleviating the possible loss incurred from natural disaster.

For prevention of damages incurred by climate change, the Company has defined emergency management plan for natural disaster, for example, installation of sand bags in respond to flooding caused by extreme weather, and also inclusion of business continuity plan for recovery of any business interruption during natural disaster or extreme weather. Moreover, office has also established "Office Safety Management System", which requires employees to close all windows prior to typhoon, and requires regular window inspection to alleviate damages incurred during typhoon.

EMPLOYMENT STANDARDS

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

Recruitment, Promotion and Equal Opportunities

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

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

The Company has various promotion schemes. Apart from seniority as general rule, work performance and level of commitment are also important criteria for evaluating promotion. Way of evaluation on work performance is generally conducted by the responsible department manager. In addition to the quarterly evaluation by superior of the individual employee performance, in order to strengthen solidarity within departments and boost initiatives among employees, the Company also has quarterly evaluation of departmental performance, through which department evaluates one another’s performance with clear and transparent scoring methodology.

Work-life Balance

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

Compensation and Retirement Arrangement

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

Anti-discrimination

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

Environmental, Social and Governance Report

Employee Benefits

The Company strictly abides by the national laws and regulations related to human resource, which require to provide annual leave, marriage leave, maternity leave and paternity leave. The Company's basic employee benefits are comprised of social insurance and year-end bonus, and other benefits including subsidies for heating facilities in winter as well as those for sunstroke prevention and cooling facilities in summer, which are used to boost staff's morale.

Moreover, it is the Company's belief that having an outstanding team is a way to ensure the long-term development of the Company, while "being people-oriented, having good intentions towards others, keeping abreast of the times, mutual growth and prosperity" is the philosophy of operation in Hong Kong. Therefore, we value employees as an important asset and the Company attracts employees by providing remuneration that is no lower than or even higher than the market level. In selecting new candidates and cultivating talents, we pay attention to their mentality and adhere to the selection and cultivation standards, which require employees must work diligently, be dedicated to their work, be honest and upright, have a sense of responsibility, be able to understand and respect each other, value teamwork, and stay aggressive with spirit of learning.

LABOUR STANDARDS

The Company abides by the regulations pertinent to prohibiting employment of child labour and forced labour.

In the recruitment process, the identity cards of the applicants are strictly reviewed to ensure meeting the statutory minimum age. The Company respects the employees' rights in the aspects of recruitment, resignation, overtime work and personal freedom. It is prohibited all forms of forced labour, which include withholding of personal identity cards, request for deposits upon recruitment. Employees must not be required to proceed overtime work. In case of any overtime work required for project urgency, employees will be entitled to legal compensation in form of cash or holidays. Moreover, policies are established to ensure all employees are working on voluntary basis. All employees have the rights to resign upon the notice period as stipulated in the employment or related contracts.

In event of occurrence of child or forced labour in the operation, the relevant non-compliance will be handled and eliminated in accordance with laws.

During the reporting period, the Company did not identify or receive any legal non-compliance or complaint related to discrimination or other employment issues. In the same period, there was no identified case of child labour employment nor legal non-compliance against forced labour regulations.

In this year, all employees were full-time and located within China region. The following table sets forth the total number and distribution of the Company's employees during the 2019 and 2018 reporting years:

	2019	2018
Gender		
Male	**13**	12
Female	**10**	13
Type of employment		
Full-time	**23**	25
Age group of employees		
18 – 24	**2**	4
25 – 34	**8**	9
35 – 44	**5**	3
45 – 54	**6**	4
55 – 64	**2**	5
> 65	**0**	0
Total	**23**	25

Note: The above table disclosed the number of employees as at 31 December of the mentioned reporting years.

The following table sets forth the rate of employee turnover to the total number of employees during the 2019 and 2018 reporting years:

	2019 (%)	2018 (%)
Gender		
Male	**14.1**	8.3
Female	**0**	23.0
Age group of employees		
18 – 24	**37.5**	0
25 – 34	**0**	0
35 – 44	**17.9**	33.3
45 – 54	**0**	75.0
55 – 64	**0**	0
> 65	**0**	0
Region		
China	**8.4**	16.0

Environmental, Social and Governance Report

OCCUPATIONAL HEALTH AND SAFETY

Ensuring the occupational health and safety of employees should be the top priority for every business, and provision of relevant personal protective tools is the utmost fundamental requirement. The Company provides raincoats, rain boots, safety helmets, insulating shoes, gloves, masks, etc., as well as provision of medical supplies for emergency use. Safety of workplace and operating procedures together with employee education on dealing with some possible unexpected accidents are also emphasis of necessary concerns. Therefore, the Company formulates safety training for employees, including newly recruited employee. In this year, a total of two safety training has been arranged. In addition, physical examination has also been provided. In this year, there was a total of 16 participants attending physical examination and no case of occupational disease has been diagnosed.

Owing to the characteristics of the logistics industry, even for those people who may access to workplaces other than the Company's employees, relevant health and safety policies have been developed for them.

Workplace Safety

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

(i) restriction on access to certain areas;

(ii) speed limit on vehicles;

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

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

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

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

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

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

Safety and Emergency Response Plan

Despite it is usually difficult for predicting accident occurrence, the Company aims to instill employees with knowledge on safety and emergency response, which enables the minimization of casualties and losses in event of accidents.

Fire and Emergency Drills

Fire evacuation diagram have been posted amongst each workplace, they indicated clearly the routes for employees leaving the site safely. In addition to arranging fire drills for employees, the Company also invited other partners such as contractors for participation together. With regards to operational risks, emergency drills other than fire drill would be arranged on an annual basis.

Emergency Response Plan for Lifting Equipment

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

Rectification Plan for Key Safety Aspects

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

(i) inspection of the safety of firefighting facilities;

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

(iii) inspection of the safety of special equipment;

(iv) inspection of transport safety.

During the reporting period, the Company's business was not identified with any legal non-compliance against the local regulations related to occupational health and safety.

The following table sets forth the rate of fatalities and number of working days lost due to employees' work injuries during the 2019 and 2018 reporting years.

	2019	2018
Rate of fatalities due to employees' work injuries	**0**	0
Number of working days lost due to employees' work injuries	**0**	0

DEVELOPMENT AND TRAINING

The Company has established annual training plan for provision to employees of different training types. Our Hong Kong operation is striving to provision of an environment which enables employees at the headquarters to achieve professional growth, facilitate their career development as well as fulfil the long-term business needs of the Group. To this end, "Training Fee Usage Guideline" has been developed to encourage employees' proactive participation in training courses organized by professional institutions, with the aims for raising their professional skills and knowledge.

Furthermore, for encouraging continual development of employees and establishment of a highly qualified team, the Company has established staff scholarship system in addition to provision of subsidies for job-related trainings. For employees graduated at college level or above, they would be entitled to one-off scholarship, which is regarded as the Company's incentives for encouraging employees' study in their leisure time.

In this year, the Company is dedicated to investment of training resources for assuring training attendance of all employees, and the training proportion of employees in each category have been increased, particularly for the provision of trainings to senior and middle management. The following table sets forth the percentage of internally trained employees to the total workforce in the Company during the 2019 and 2018 reporting years.

	2019 (%)	2018 (%)
Gender		
Male	**100**	41.7
Female	**100**	7.7
Employee Category		
Senior management	**100**	0
Middle management	**100**	0
General staff	**100**	25.0

In this year, training hours completed by all employees amounted to 196 hours. The following table sets forth the average training hours per employee in terms of gender and employee category:

	2019 Total Training Hours (Hour)	Average training hours per person (Hour/person)
Gender		
Male	**116**	8.2
Female	**80**	8.2
Employee Category		
Senior management	**8**	8.0
Middle management	**16**	8.0
General staff	**172**	8.2

As compared with the reporting year of 2018, in this year the Company has invested significant resources for enhancement of training to female employees, as shown in average training hours of female employees as set forth in the following table:

	2019 (Hour/person)	2018 (Hour/person)
Gender		
Male	**8.2**	11.6
Female	**8.2**	0.7

SUPPLY CHAIN MANAGEMENT

Service quality is closely related to the contractor performance, hence prior to making the decision on inclusion of the potential suppliers or contractors in the approved list, it will take account of their reputation, background, experience, past performance, and delivery timeliness. Also, their performance will also be evaluated in the aspects of safety, quality, environmental and security management. Moreover, the Company will even consider their associated environmental and social risks, and therefore prioritize the selection of those suppliers/contractors or their associated supplies and services which could comply with the following criteria:

1. Institutions which achieved green or environmental certification

2. Institutions in compliance operations (e.g. no child labour, no corruption)

3. Institutions which attained award or certificate related to corporate social responsibility

4. Supplied products contain materials with environmental-friendly characteristics

5. Supplied products are energy efficient products or equipment

Qualified contractors/suppliers are enlisted in the "Approved contactor/supplier list", and it is only allowed to engage related service or procurement contracts from those contractors/suppliers on the list. In event of the performance of contractor/supplier not good enough or incapable of fulfilling the contractual requirements, the name of the related contractor/supplier will be removed from the list upon the approval of management team.

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

The following table sets forth the number of the Company's suppliers and their geographical locations during the 2019 and 2018 reporting years.

	2019	2018
China	**10**	11

SERVICE QUALITY

The Company is committed to continual improvement of service quality, and immediate response to customers' enquiries. We have established customer service channel whereby if there is a complaint, our salesman is required to give the customer an appropriate reply within a specified time frame. Meanwhile, the Company further enters into a confidentiality agreement with its employees to prevent leakage of customer information and strictly manages information and documents related to customers' intellectual property.

For implementation of strict confidential measures, signing agreement of confidentiality is a must at the time engaging service/procurement contracts with contractors/suppliers. Also, confidentiality agreement is signed with employees, who are required to abide by the policies and local regulations related to privacy of personal information, for protection of customer information.

The following table sets forth the percentage of products recalled due to safety and health reasons and the number of complaints related to products and service during the 2019 and 2018 reporting years.

	2019	2018
Percentage of products recalled due to safety and health reasons	0	0
Number of complaints related to products and service	0	0

During the reporting period, the Company did not identify any legal non-compliance related to the responsibilities of products or service.

ANTI-CORRUPTION

The Company requires employees to abide by the related laws and regulations and prohibits all forms of fraud and corrupt behaviours: including prohibition of all employees requesting or acceptance of commission, rebate, bonus, loan, gift or benefit from any person, company, or organization that has business relationship with the Group, unless prior approval sought from the Board and compliance with the related laws and regulations.

Anti-corruption and anti-bribery are essential elements in creating a fair business environment, and include the following controls:

(i) Ensure management team proficiency in the national policies against business corruption and those related to integrity, this enables them lead the Company's operating activities, strengthen supervision, and implement corrections in case of any loophole identified;

(ii) In the processes of procurement and sales, discounts are required to be clearly listed on the invoices whenever feasible;

(iii) For the staff of the Accounting Department, their awareness on integrity will be established. This ensures they are aware of the impacts from fraudulent accounts;

(iv) Annual financial audits will be proceeded to monitor the related performance of the employees in Accounting Department.

Whistleblowing mechanism plays a crucial role in the entire anti-corruption process. Upon receipt of the related report by the Company, the identity of the whistleblower, reported content, and the status of investigation will be kept confidential. Relevant departments are collaborated for investigation.

During the reporting period, the Group did not identify any legal non-compliance or complaint related to corruption.

Environmental, Social and Governance Report

COMMUNITY PARTICIPATION

The Company has been caring and contributing to the society over the years through different channels. The scope of participation included aspects of poverty alleviation, education, and environmental protection, etc., for example, the provision of emergency food assistance, safe production training, pollution survey training. The Group understands that serving community requires the collaboration amongst different parties. In the past, trainings or activities had been partnered with the related charity organizations, such as "St. James' Settlement People's Food Bank", or other professional institutions. In 2019, the Company continued to support educational activities which included liaison for collaboration between government of logistics park and Qianan college. The collaboration arranged relevant students of Qianan collage to visit the logistics enterprises, this enhanced their understanding in workflow of logistics enterprises and facilitated their better study of the textbook content. Moreover, the Company has contributed to the community again on environmental protection, which cooperated with the logistics park on the work of preparedness against natural disasters and extreme weather. This supported the community for preparing against the impacts incurred by climate change.

OUTLOOK

The Qianan logistics business of the Group will actively cooperate with needs of the national market, with consideration of the national concern on environmental protection as well as the social risks related to the industry. In the future, we are dedicated to exploring more environmental policies and measures, which will be integrated into the related business strategies for further inclusion of sustainability into the business philosophy.

COMMENTS ON THE REPORT

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

Address:	Unit 17–18, 36th Floor, Shun Tak Centre China Merchants Tower, Connaught Road Central, Hong Kong
Telephone:	852 2895 6733
Fax:	852 2895 6876
E-mail:	enquiry@srlhl.com

Report of the Directors

The directors of Silk Road Logistics Holdings Limited (the "Company") are pleased to present their report and the audited financial statements of the Company and its subsidiaries (the "Group") for the year ended 31 December 2019.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in note 46 to the consolidated financial statements.

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

BUSINESS REVIEW

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

PRINCIPAL RISKS AND UNCERTAINTIES

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

ENVIRONMENTAL POLICY AND PERFORMANCE AND THE COMPLIANCE OF LAWS AND REGULATIONS

The Group is committed to maintain an environmental friendly strategy by ways of minimizing pollution and wastage dispose to the environment, energy saving, low carbon emission, and emphasizing on recycling. The offices were aimed in minimizing the use of papers and consumables, and concentrated in the use of electronic media. The Company's major subsidiary located in Hebei is carrying on business of logistics and warehouse. This subsidiary adopted the Company's above environmental policies. In addition, it proceeds in compliance with local regulations related to green space rate. In 2019, the required green rate was generally around 5% to 20%, while the subsidiary hit high with green space rate up to 18.2%. In terms of warehouse management, the open-air warehouse is used to store goods which have a low impact on the environment while the enclosed warehouses are used to store goods which may have more impact on the environment. Through the warehouse management policy and continuing and closely monitor the warehouses operations, pollution generated in the operation process from these warehouses is low. Besides, sufficient provision was made for the assets retirements in the oil companies to ensure a minimal damage to the environment. The Group is consistently reviewed the compliance on environmental policies in each location to ensure the compliance of relevant laws, rules and regulations, and consistently enhance our standard to increase our contribution to the environment.

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

Report of the Directors

RESULTS AND DIVIDENDS

The Group's loss for the year ended 31 December 2019 and the Group's financial position at that date are set out in the consolidated financial statements on pages 56 to 147.

The board of directors of the Company (the "Board") does not recommend payment of a final dividend for the year ended 31 December 2019 (2018: Nil).

DIVIDEND POLICY

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

SUMMARY FINANCIAL INFORMATION

A summary of the published results and assets, liabilities and non-controlling interests of the Group for the last five financial years, is set out on pages 149 to 150, which does not form part of the consolidated financial statements.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Group during the year are set out in notes 15 to the consolidated financial statements on pages 106 to 108.

BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group are set out in note 28 to the consolidated financial statements on page 122.

SHARE CAPITAL AND CONVERTIBLE BONDS

Details of movements in the Company's share capital and the convertible bonds during the year are set out in notes 35 and 29 to the consolidated financial statements respectively.

PRE-EMPTIVE RIGHTS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year ended 31 December 2019.

Report of the Directors

DISTRIBUTABLE RESERVES

At 31 December 2019, the Company's had no reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) (2018: amounted approximately to HK$332,218,000).

MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 57.06% (2018: 78.75%) of the total sales for the year and sales to the largest customer included therein amounted for 42.93% (2018: 40.87%). Purchases from the Group's five largest suppliers accounted for 90.45% (2018: 81.93%) of the total purchases for the year and purchases from the largest supplier included therein amounted for 34.61% (2018: 40.72%).

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

DIRECTORS

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

Executive Directors:
Mr. Cai Jianjun (re-designated as executive Director on 25 January 2019)
Ms. Zhang Rui (appointed on 25 January 2019)
Ms. Wong Kai Ling (appointed on 13 May 2020)
Mr. Wang Xiusong (resigned on 13 May 2020)

Non-executive Director:
Mr. Zhou Hao (appointed on 28 February 2019 and resigned on 2 June 2020)
Mr. Qin Bo (appointed on 2 June 2020)

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

In accordance with Bye-law 86(2) of the Company's Bye-laws, Ms. Wong Kai Ling and Mr. Qin Bo will retire from office at the forthcoming annual general meeting and being eligible, offer herself/himself for re-election as executive Director or non-executive Director (as the case may be).

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Mr. Wu Zhao, Mr. Zhu Dengkai and Mr. Liu Wei will retire from office by rotation at the forthcoming annual general meeting and being eligible, Mr. Wu Zhao will offer himself for re-election as executive Director and Mr. Liu Wei will offer himself for re-election as independent non-executive Director, while Mr. Zhu Dengkai will not offer himself for re-election as independent non-executive Director.

INDEPENDENCE OF INDEPENDENT NON-EXECUTIVE DIRECTORS

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

Ms. Choy has served as an independent non-executive Director for more than nine years. In addition to her confirmation of independence pursuant to Rule 3.13 of the Listing Rules, Ms. Choy continues to demonstrate the attributes of an independent non-executive director and there is no evidence that her tenure has had any impact on her independence. Ms. Choy is not involved in the daily management of the Group nor in any relationships or circumstances which would interfere with the exercise of her independent judgment. In view of Ms. Choy holds a wide variety of political, social and academic positions, which the Board believes that she is capable to provide constructive contributions as well as wide spectrum of independent opinion to the Company. Hence, the Board is of the opinion that Ms. Choy has the required charter, integrity, experience and knowledge to continue fulfilling the role of an independent non-executive Director effectively and is of the opinion that Ms. Choy remains independent and believes that her experience continues to generate significant contribution to the Company and is beneficial to its Shareholders as a whole. The Shareholders of the Company has approved the re-election of Ms. Choy at the Annual General Meeting held on 4 June 2019.

MANAGEMENT CONTRACTS

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

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

DIRECTORS' SERVICE CONTRACTS

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

EMOLUMENT POLICY AND DIRECTORS' REMUNERATION

The remuneration policy of the Group is based on the employee's qualifications, experience and performance and with reference to the current market conditions, industry practice and assessment of the performance of the Group. The Directors' fees are subject to shareholders' approval at general meetings. Other emoluments are recommended by the remuneration committee of the Company and determined by the Board with reference to Directors' duties, qualification, responsibilities and performance of the Directors, the results of the Group and the market practice.

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

CONNECTED AND CONTINUING CONNECTED TRANSACTIONS

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

(1) Supply Agreement and Purchase Agreement

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

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

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

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

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

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

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

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

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

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

(b) on normal commercial terms; and

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

The auditors of the Company have provided confirmations in accordance with the relevant provisions of the Listing Rules applicable to the CCTI and CCTII for the year ended 31 December 2019 and confirming that nothing has come to their attention that causes them to believe that the CCTI and CCTII for the year ended 31 December 2019:

(a) have not been approved by the Board;

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

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

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

RELATED PARTY TRANSACTION

A summary of the related party transactions entered into by the Group during the year ended 31 December 2019 is contained in note 41 to the consolidated financial statements. Save and except the connected transactions/continuing connected transactions disclosed above, the related party transactions did not constitute connected transactions/continuing connected transactions or constituted connected transactions/continuing connected transactions but were exempted from all disclosure and independent shareholders' approval requirements under the Listing Rules.

INTERESTS OF DIRECTORS AND CHIEF EXECUTIVE

As at 31 December 2019, the following Directors and chief executive of the Company were interested, or were deemed to be interested in the following long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation (within the meaning of the Securities and Futures Ordinance (the "SFO")) which (a) were required to be notified to the Company and The Stock Exchange of Hong Kong Limited (the "Stock Exchange") pursuant to Divisions 7 and 8 of Part XV of the SFO; or (b) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein (the "Register"); or (c) were required, pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers contained in Appendix 10 of the Listing Rules, to be notified to the Company and the Stock Exchange:

	Long and short position in the shares and underlying shares of the Company			
Name of Director	Number of ordinary shares	Nature of Interests	Total	Approximate percentage of the issued share capital
Mr. Cai Jianjun	10,000,000(L) 1,703,728,222(L) (Note)	Family interests Corporate interests	1,713,728,222(L)	30.05%
Ms. Choy So Yuk	271,908(L)	Personal interests	271,908(L)	0.01%
Mr. Leung Yuen Wing	224,213(L)	Personal interests	224,213(L)	0.01%

L – Long position

Note:

Pursuant to the put option deed (the "Put Option Deed") entered into between China Yangtze River Petrochemical Group Limited ("Yangtze River"), a company controlled by Mr. Cai, and China Huarong Investment Management Limited ("Huarong Investment"), being a substantial shareholder of the Company, Huarong Investment may put any or all of these 1,703,728,222 shares to Yangtze River.

Save as disclosed above, as at 31 December 2019, none of the Directors and chief executive of the Company was interested, or was deemed to be interested in the long and short positions in the shares, underlying shares and debentures of the Company or any associated corporation which were required to be notified to the Company and the Stock Exchange or recorded in the Register as aforesaid.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

RELATIONSHIPS WITH EMPLOYEES, CUSTOMERS AND SUPPLIERS

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

SHARE OPTION SCHEME

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

Details of the Scheme are set out in note 36 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSONS' INTERESTS

Save as disclosed under the section headed "Interests of Directors and chief executive" above, as at 31 December 2019, the following persons had an interest in the shares and underlying shares of the Company as recorded in the register required to be kept under Section 336 of the SFO.

			Long and short positions in the shares/ underlying shares of the Company	
Name	Capacity	Nature of Interest	No. of shares/ underlying shares	Approximate percentage of the issued share capital
China Huarong International Holdings Limited ("China Huarong")	Interest of controlled corporation	Corporate interests	1,703,728,222(L) 1,703,728,222(S) (Note 1)	29.87% 29.87%
China Huarong Asset Management Co., Ltd. 中國華融資產管理股份有限公司	Interest of controlled corporation	Corporate interests	1,703,728,222(L) 1,703,728,222(S) (Note 1)	29.87% 29.87%
Yuan Jing	Beneficial owner	Personal interests	10,000,000(L)	0.18%
	Family interest	Corporate interests	1,703,728,222(L) (Note 2)	29.87%
			Total: 1,713,728,222(L)	30.05%
Yangtze River	Beneficial owner	Corporate interests	1,703,728,222(L) (Note 2)	29.87%
Xinya Global Limited 新亞環球有限公司	Beneficial owner	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tewoo Import & Export (HK) Limited	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tianjin Tian Yuen Investment Limited* 天津天源投資有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tewoo Import and Export Trade Co., Limited* 天津物產進出口貿易有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tewoo Group (Hong Kong) Limited	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tewoo Group Co., Ltd.* 天津物產集團有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%

Name	Capacity	Nature of Interest	Long and short positions in the shares/ underlying shares of the Company No. of shares/ underlying shares	Approximate percentage of the issued share capital
Tianjin Guo Xiang Asset Management Limited* 天津國翔資產管理有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tianjin Guo Xing Asset Operation Limited* 天津國興資本運營有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tianjin Yi Qing Asset Management Limited 天津一輕資產經營管理有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%
Tianjin Yi Qing Group Holdings Limited 天津市一輕集團(控股)有限公司	Interest of controlled corporation	Corporate interests	438,224,120(L) (Note 3)	7.68%

L – Long position

S – Short position

Notes:

1. Huarong Investment is interested in these1,703,728,222 shares. China Huarong owns 100% of Huarong Investment and is deemed to be interested in the shares held by Huarong Investment, Huarong International Holdings Limited is owned as to 88.1% by Huarong Real Estate Co., Ltd. and as to 11.9% by Huarong Zhiyuan Investment & Management Co., Ltd. Each of Huarong Real Estate Co., Ltd. and Huarong Zhiyuan Investment & Management Co., Ltd. is wholly-owned by China Huarong Asset Management Co., Ltd..

   Pursuant to the Put Option Deed, Huarong Investment may put any or all of these 1,703,728,222 shares to Yangtze River.

2. Pursuant to the Put Option Deed Huarong Investment may put any or all of these 1,703,728,222 shares held by it to Yangtze River, which is controlled by Mr. Cai, Ms. Yuen Jing (the spouse of Mr. Cai) is deemed to have interest in these shares.

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

Save as disclosed above, the Directors are not aware of any other persons who, at 31 December 2019, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

Report of the Directors

SUFFICIENCY OF PUBLIC FLOAT

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

DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

CORPORATE GOVERNANCE

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

EVENTS AFTER THE REPORTING PERIOD

Details of significant events of the Group after the reporting period and set out in note 47 to the consolidated financial statements.

SUFFICIENCY OF PUBLIC FLOAT

Based on information that is publicly available to the Company and within the knowledge of the Directors as at the latest practicable date prior to the issue of this report, the Company has maintained sufficient public float as required under the Listing Rules during the period under review and up to the date of this report.

AUDITORS

On 29 December 2016, the Board appointed CCTH CPA Limited as auditors of the Company to fill the casual vacancy caused by the resignation of Ascenda Cachet CPA Limited, until the conclusion of the 2017 annual general meeting. CCTH CPA Limited was re-appointed as auditors of the Company at the 2017, 2018 and the 2019 annual general meeting. Save for the above, there were no other changes in the Company's auditors in the past three years.

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

ON BEHALF OF THE BOARD
CAI Jianjun
Chairman

Hong Kong
2 June 2020

Independent Auditors' Report

CCTH CPA LIMITED
中正天恆會計師有限公司

To the shareholders of Silk Road Logistics Holdings Limited
(Incorporated in the Bermuda with limited liability)

DISCLAIMER OF OPINION

We were engaged to audit the consolidated financial statements of Silk Road Logistics Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 147, which comprise the consolidated statement of financial position as at 31 December 2019, 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.

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

BASIS FOR DISCLAIMER OF OPINION

Going concern

As disclosed in note 2 to the consolidated financial statements, the current liabilities of the Group at 31 December 2019 exceed the Group's current assets at that date by approximately HK$433,195,000 and the Group incurred net loss of approximately HK$378,812,000 for the year ended 31 December 2019.

The consolidated financial statements have been prepared by the directors of the Company on a going concern basis, the validity of which depends upon the results of the successful implementation and outcome of the measures to be undertaken by the Group. In view of the extent of the material uncertainties relating to the results of those measures to be undertaken by the Group which might cast a significant doubt on the Group's ability to continue as a going concern, we have disclaimed our audit opinion on the consolidated financial statements.

Should the going concern assumption be inappropriate, adjustments would have to be made to the consolidated financial statements to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments have not been reflected in the consolidated financial statements.

Independent Auditors' Report

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

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

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

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

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

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

We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code.

CCTH CPA Limited
Certified Public Accountants
Hong Kong, 2 June 2020

Kwong Tin Lap
Practising certificate number: P01953

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

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
REVENUE	7	**5,522,721**	11,536,943
Cost of sales and services		**(5,488,620)**	(11,469,113)
Gross profit		**34,101**	67,830
Other income and gains	7	**21,406**	1,831
Reversal of impairment of interests in an associate	18(b)	**–**	15,910
Selling and distribution expenses		**(131)**	(218)
Administrative expenses		**(58,411)**	(57,942)
Loss on disposal of oil properties	20	**(56,945)**	–
Loss on deemed disposal/disposal of an associate	18(c)	**(7,891)**	(8,757)
Impairment of goodwill	19	**(14,250)**	(7,840)
Impairment of interests in associates	18(a)	**(242,000)**	(190,000)
Impairment of oil properties	20	**(18,000)**	(34,332)
Impairment of trade receivables	22	**–**	(92,955)
Impairment of prepayments, deposits and other receivables	23	**(4,474)**	(114,010)
Share of profit (loss) of associates	18	**4,118**	(2,858)
Finance costs	8	**(40,747)**	(49,172)
LOSS BEFORE TAX	9	**(383,224)**	(472,513)
Income tax credit	12	**4,412**	24,460
LOSS FOR THE YEAR		**(378,812)**	(448,053)
OTHER COMPREHENSIVE INCOME			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of foreign operations		**2,532**	(52,013)
TOTAL COMPREHENSIVE INCOME FOR THE YEAR		**(376,280)**	(500,066)

Consolidated Statement of Profit or Loss and Other Comprehensive Income

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
(Loss) profit for the year attributable to:			
Owners of the Company		**(382,988)**	(453,358)
Non-controlling interests		**4,176**	5,305
Loss for the year		**(378,812)**	(448,053)
Total comprehensive income for the year attributable to:			
Owners of the Company		**(378,974)**	(500,977)
Non-controlling interests		**2,694**	911
Total comprehensive income for the year		**(376,280)**	(500,066)
		2019 HK$	2018 HK$
LOSS PER SHARE	14		
– Basic		**(0.07)**	(0.08)
– Diluted		**N/A**	N/A

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS			
Property, plant and equipment	15	**178,618**	202,333
Right-of-use assets	16	**74,368**	–
Prepaid land lease payments	17	**–**	50,811
Interests in associates	18	**492,055**	737,846
Goodwill	19	**88,738**	102,988
Oil properties	20	**67,017**	145,175
Total non-current assets		**900,796**	1,239,153
CURRENT ASSETS			
Inventories	21	**577**	567
Prepaid land lease payments	17	**–**	1,482
Trade and bills receivables	22	**574**	612,590
Prepayments, deposits and other receivables	23	**230,211**	855,106
Income tax recoverable		**10,149**	7,173
Cash and cash equivalents	24	**4,369**	43,579
		245,880	1,520,497
Assets classified as held for sale	25	**–**	12,688
Total current assets		**245,880**	1,533,185
CURRENT LIABILITIES			
Trade payables	26	**80,281**	708,494
Other payables and accruals	27	**150,196**	809,352
Bank and other borrowings	28	**394,379**	414,412
Promissory notes payable	30	**54,133**	52,000
Obligations under finance leases	31	**86**	86
Income tax payable		**–**	4,528
Total current liabilities		**679,075**	1,988,872
NET CURRENT LIABILITIES		**(433,195)**	(455,687)
TOTAL ASSETS LESS CURRENT LIABILITIES		**467,601**	783,466

Consolidated Statement of Financial Position

As at 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
NON-CURRENT LIABILITIES			
Other payables and accruals	27	**18,778**	–
Bank and other borrowings	28	**35,230**	–
Obligations under finance leases	31	**110**	197
Lease liabilities	32	**13,083**	–
Assets retirement obligations	33	**5,651**	12,053
Deferred tax liabilities	34	**31,930**	32,077
Total non-current liabilities		**104,782**	44,327
Net assets		**362,819**	739,139
EQUITY			
Share capital	35	**57,036**	57,036
Reserves		**221,292**	600,306
Equity attributable to owners of the Company		**278,328**	657,342
Non-controlling interests		**84,491**	81,797
Total equity		**362,819**	739,139

The consolidated financial statements on pages 56 to 147 were approved and authorised for issue by the Board of Directors on 2 June 2020 and are signed on its behalf by:

Cai Jianjun
Director

Wong Kai Ling
Director

Consolidated Statement of Changes in Equity

Year ended 31 December 2019

	Attributable to owners of the Company										
	Share capital HK$'000 (Note 35)	Share premium account HK$'000	Share option reserve HK$'000 (Note 37(a))	Equity component of convertible bonds HK$'000	Exchange fluctuation reserve HK$'000	Capital reserve HK$'000 (Note 37(b))	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2018	57,036	1,492,097	3,504	31,433	22,941	176,106	773,090	(1,398,056)	1,158,151	80,886	1,239,037
(Loss) profit for the year	–	–	–	–	–	–	–	(453,358)	(453,358)	5,305	(448,053)
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	–	–	–	–	(47,619)	–	–	–	(47,619)	(4,394)	(52,013)
Total comprehensive income for the year	–	–	–	–	(47,619)	–	–	(453,358)	(500,977)	911	(500,066)
Transfer to accumulated losses upon maturity of convertible bond	–	–	–	(31,433)	–	–	–	31,433	–	–	–
Transfer from accumulated losses to capital reserve	–	–	–	–	–	2,062	–	(2,062)	–	–	–
Share of reserve of an associate	–	–	168	–	–	–	–	–	168	–	168
As 31 December 2018	**57,036**	**1,492,097**	**3,672**	**–**	**(24,678)**	**178,168**	**773,090**	**(1,822,043)**	**657,342**	**81,797**	**739,139**
(Loss) profit for the year	**–**	**–**	**–**	**–**	**–**	**–**	**–**	**(382,988)**	**(382,988)**	**4,176**	**(378,812)**
Other comprehensive income for the year											
Exchange differences on translation of foreign operations	**–**	**–**	**–**	**–**	**4,014**	**–**	**–**	**–**	**4,014**	**(1,482)**	**2,532**
Total comprehensive income for the year	**–**	**–**	**–**	**–**	**4,014**	**–**	**–**	**(382,988)**	**(378,974)**	**2,694**	**(376,280)**
Transfer from accumulated losses to capital reserve	**–**	**–**	**–**	**–**	**–**	**200**	**–**	**(200)**	**–**	**–**	**–**
Share of reserve of an associate	**–**	**–**	**(40)**	**–**	**–**	**–**	**–**	**–**	**(40)**	**–**	**(40)**
At 31 December 2019	**57,036**	**1,492,097**	**3,632**	**–**	**(20,664)**	**178,368**	**773,090**	**(2,205,231)**	**278,328**	**84,491**	**362,819**

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM OPERATING ACTIVITIES			
Loss for the year		**(378,812)**	(448,053)
Adjustments for:			
Income tax credit	12	**(4,412)**	(24,460)
Share of (profit) loss of associates		**(4,118)**	2,858
Finance costs		**40,747**	49,172
Impairment of goodwill		**14,250**	7,840
Impairment of interests in associates		**242,000**	190,000
Impairment of oil properties		**18,000**	34,332
Impairment of trade receivables		**–**	92,955
Impairment of prepayments, deposits and other receivables		**4,474**	114,010
Depreciation of property, plant and equipment		**11,833**	14,786
Depreciation of right-of-use assets		**4,613**	–
Accretion expenses – oil properties		**1,678**	815
Amortisation of prepaid land lease payments		**–**	1,494
Amortisation of oil properties		**126**	1,710
Interest income		**(342)**	(91)
Gain on disposal of assets classified as held for sale		**(18,049)**	–
Loss on disposal of oil properties		**56,945**	–
Loss on deemed disposal/disposal of associates		**7,891**	8,757
Loss on disposal of property, plant and equipment		**–**	24
Reversal of impairment of interests in an associate		**–**	(15,910)
Net foreign exchange losses (gains)		**4,024**	(5,201)
Operating cash flows before movements in working capital		**848**	25,038
(Increase) decrease in inventories		**(12)**	847
Decrease (increase) in trade and bills receivables		**613,672**	(552,710)
Decrease (increase) in prepayments, deposits and other receivables		**626,000**	(48,684)
(Decrease) increase in trade payables		**(631,286)**	707,479
Decrease in other payables and accruals		**(646,428)**	(7,490)
Utilisation of assets retirement obligations	33	**(88)**	(181)
Cash (used in) generated by operations		**(37,294)**	124,299
Income tax paid		**(3,399)**	(15,472)
Income tax recovered		**1,837**	–
Net cash (used in) generated by operating activities		**(38,856)**	108,827

Consolidated Statement of Cash Flows

Year ended 31 December 2019

	Notes	2019 HK$'000	2018 HK$'000
CASH FLOWS FROM INVESTING ACTIVITIES			
Interest received		342	91
Purchase of property, plant and equipment		(94)	(16,700)
Proceeds from disposal of property, plant and equipment		–	31
Purchase of oil properties		(237)	(1,464)
Proceeds from disposal of oil properties and oil equipment		3,696	–
Proceeds from disposal of assets classified as held for sale		30,737	–
Net proceeds from disposal of subsidiaries	38	–	5,155
Net proceeds from disposal of an associate		–	12,999
Net cash generated by investing activities		34,444	112
CASH FLOWS FROM FINANCING ACTIVITIES			
Interest paid		(4,364)	(18,653)
New bank and other borrowings		–	41,254
Repayment of bank and other borrowings		–	(106,358)
Repayment of promissory notes payable		(2,500)	–
Repayment of finance leases		(89)	(86)
Repayment of lease liabilities		(13,238)	–
Net cash used in financing activities		(20,191)	(83,843)
NET (DECREASE) INCREASE IN CASH AND CASH EQUIVALENTS		(24,603)	25,096
Cash and cash equivalents at beginning of the year		28,857	5,696
Effect of foreign exchange rate changes, net		115	(1,935)
CASH AND CASH EQUIVALENTS AT END OF THE YEAR		4,369	28,857
ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS			
Cash and cash equivalents as stated in the consolidated statement of financial position	24	4,369	43,579
Bank overdrafts	28	–	(14,722)
		4,369	28,857

Notes to Consolidated Financial Statements

31 December 2019

1 GENERAL

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

The registered office of the Company is located at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal place of business is situated at Unit 17-18, 36/F, China Merchants Tower, Shun Tak Centre, 168-200 Connaught Road Central, Hong Kong.

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

2 BASIS OF PREPARATION OF FINANCIAL STATEMENTS

These consolidated financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") (which include all Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations) issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA"), accounting principles generally accepted in Hong Kong and the disclosure requirements of the Hong Kong Companies Ordinance. In addition, the consolidated financial statements include the applicable disclosures required by the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. The consolidated financial statements have been prepared under the historical cost convention. These consolidated financial statements are presented in Hong Kong dollars and all values are rounded to the nearest thousand except when otherwise indicated.

Notwithstanding that the current liabilities of the Group at 31 December 2019 exceed the Group's current assets at that date by HK$433,195,000, which includes the other borrowings (previously regarded as the convertible bonds) and the promissory notes payable amounted to HK$366,413,000 and HK$54,133,000 respectively, and the Group incurred net loss of approximately HK$378,812,000 for the year ended 31 December 2019, the directors considered it appropriate for the preparation of the consolidated financial statements on a going concern basis after taking into account of the following circumstances and measures to be implemented:

Management of the Group will closely monitor the financial position of the Group and the directors of the Company will make every effort (a) to secure funds as necessary to finance the business operations of the Group for the foreseeable future; and (b) to negotiate with the lender of the other borrowings (previously regarded as the holder of the convertible bonds) and the holder of the promissory note payable for the extension of repayments of the other borrowings and the promissory note to a date when the Group has adequate working capital to serve the repayments.

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

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

New and revised HKFRSs applied in the current year

The Group has applied the following new and revised HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKFRS 9	Prepayment Features with Negative Compensation
HKFRS 16	Leases
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments
Annual Improvements to HKFRSs 2015-2017 Cycle	Amendments to HKFRS 3, HKFRS 11, HKAS 12 and HKAS 23

Other than as explained below regarding the impact of HKFRS 16 "Leases", the application of the new and revised standards effective in respect of the current period had not resulted in significant impact on the Group's consolidated financial statements.

HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current year. HKFRS 16 superseded HKAS 17 "Leases" ("HKAS 17") and the related interpretations.

Definition of a lease

The Group has elected 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. Therefore, the Group has not reassessed contracts which already existed prior to the date of initial application.

For contracts entered into or modified on or after 1 January 2019, the Group applies the definition of a lease in accordance with the requirements set out in HKFRS 16 in assessing whether a contract contains a lease.

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

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

HKFRS 16 Leases (continued)

As a lessee

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening accumulated losses and comparative information has not been restated.

Lease liabilities at 1 January 2019 were recognised based on the present value of the remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019. The right-of-use assets were measured at the amount of the lease liability, adjusted by the amount of any prepaid or accrued lease payments relating to the lease recognised in the consolidated statement of financial position immediately before 1 January 2019.

All these assets were assessed for any impairment based on HKAS 36 on that date. The Group elected to present the right-of-use assets separately in the consolidated statement of financial position.

The Group has used the following elective practical expedients when applying HKFRS 16 at 1 January 2019:

- Applying the short-term lease exemptions to leases with a lease term that ends within 12 months from the date of initial application

- Using hindsight in determining the lease term where the contract contains options to extend/ terminate the lease

(i) The impact arising from the adoption of HKFRS 16 at 1 January 2019 was as follows:

	HK$'000
Assets	
Increase in right-of-use assets	65,686
Decrease in prepaid land lease payments	(52,293)
Increase in total assets	13,393
Liabilities	
Increase in other payables and accruals	142
Increase in lease liabilities	13,251
Increase in total liabilities	13,393

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

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

HKFRS 16 Leases (continued)

As a lessee (continued)

(ii) The lease liabilities as at 1 January 2019 reconciled to the operating leases commitments as at 31 December 2018 is as follows:

	HK$'000
Operating lease commitments as at 31 December 2018	25,807
Discounted operating lease commitments as at 1 January 2019 (using weighted average incremental borrowing rate of 6.98% per annum)	13,574
Less: Commitments relating to short-term leases and those leases with a remaining lease term ending on or before 31 December 2019 and low-value assets	(181)
Lease liabilities as at 1 January 2019	13,393

	HK$'000
Analysed for reporting purposes as:	
Current liabilities	142
Non-current liabilities	13,251
	13,393

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

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

HKFRS 16 Leases (continued)

As a lessee (continued)

(iii) Amounts recognised in the consolidated statement of financial position and consolidated statement of profit or loss and other comprehensive income:

	Right-of-use assets HK$'000	Lease liabilities HK$'000
Recognition of right-of-use assets and lease liabilities	13,393	13,393
Reclassified from prepaid land lease payments	52,293	–
As at 1 January 2019	65,686	13,393
Additions	14,605	14,605
Depreciation for the year	(4,613)	–
Interest expense	–	1,127
Payments for lease liabilities	–	(13,238)
Exchange realignment	(1,310)	(232)
As at 31 December 2019	74,368	15,655

(iv) For the purpose of reporting cash flows from operating activities under indirect method for the year ended 31 December 2019, movements in working capital have been computed based on opening consolidated statement of financial position as at 1 January 2019 as disclosed above.

4 SIGNIFICANT ACCOUNTING POLICIES

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Fair value measurement

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

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

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

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

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

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

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

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

The principal accounting policies are set out below.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Basis of consolidation

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

A subsidiary is an entity (including a structured entity), directly or indirectly, controlled by the Company. Control is achieved when the Group has power over the investee; the Group is exposed, or has rights, to variable returns from its involvement with the investee; and has the ability to affect those returns through its power over the investee.

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

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

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

(b) rights arising from other contractual arrangements; and

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Business combinations and goodwill

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates

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

The results and assets and liabilities of associates are incorporated in these consolidated financial statements using the equity method of accounting. Under the equity method, an investment in an associate is initially recognised in the consolidated statement of financial position at cost and adjusted thereafter to recognise the Group's share of the profit or loss and other comprehensive income of the associate. When the Group's share of losses of an associate exceeds the Group's interest in that associate (which includes any long-term interests that, in substance, form part of the Group's net investment in the associate), the Group discontinues recognising its share of further losses. Additional losses are recognised only to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the associate.

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

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

The requirements of HKFRS 9 are applied to determine whether it is necessary to recognise any impairment loss with respect to the Group's investment in an associate. When necessary, the entire carrying amount of the investment (including goodwill) is tested for impairment in accordance with HKAS 36 "Impairment of Assets" as a single asset by comparing its recoverable amount (higher of value in use and fair value less costs of disposal) with its carrying amount. Any impairment loss recognised forms part of the carrying amount of the investment. Any reversal of that impairment loss is recognised in accordance with HKAS 36 to the extent that the recoverable amount of the investment subsequently increases.

The Group discontinues the use of the equity method from the date when the investment ceases to be an associate, or when the investment is classified as held for sale. When the Group retains an interest in the former associate and the retained interest is a financial asset, the Group measures the retained interest at fair value at that date and the fair value is regarded as its fair value on initial recognition in accordance with HKFRS 9. The difference between the carrying amount of the associate at the date the equity method was discontinued, and the fair value of any retained interest and any proceeds from disposing of a part of interest in the associate is included in the determination of the gain or loss on disposal of the associate. In addition, the Group accounts for all amounts previously recognised in other comprehensive income in relation to that associate on the same basis as would be required if that associate had directly disposed of the related assets or liabilities. Therefore, if a gain or loss previously recognised in other comprehensive income by that associate would be reclassified to profit or loss on the disposal of the related assets or liabilities, the Group reclassifies the gain or loss from equity to profit or loss (as a reclassification adjustment) when the equity method is discontinued.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investments in associates (continued)

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

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

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

Non-current assets held for sale

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

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

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

Impairment of non-financial assets

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Impairment of non-financial assets (continued)

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

Property, plant and equipment and depreciation

Property, plant and equipment, other than construction in progress, are stated at cost less accumulated depreciation and any impairment losses. When an item of property, plant and equipment is classified as held for sale or when it is part of a disposal group classified as held for sale, it is not depreciated and is accounted for in accordance with HKFRS 5. The cost of an item of property, plant and equipment comprises its purchase price and any directly attributable costs of bringing the asset to its working condition and location for its intended use.

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

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

Leasehold land	Over the lease term
Buildings	30 years
Office equipment	10 years
Oil equipment	2-30 years
Machinery	20 years
Motor vehicles	10 years
Leasehold improvements, furniture and fixtures	5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed, and adjusted if appropriate, at the end of each reporting period with any change in estimate accounted for on a prospective basis.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Investment properties

Investment properties are properties held to earn rental income and/or for capital appreciation. Such properties are measured initially at cost, including transaction costs. Subsequent to initial recognition, investment properties are stated at fair value, adjusted to exclude any prepaid or accrued operating lease income. Gains or losses arising from changes in the fair values of investment properties are included in profit or loss in the year in which they arise.

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

Intangible assets (other than goodwill)

Intangible assets acquired separately are measured on initial recognition at cost. The cost of intangible assets acquired in a business combination is their fair value at the date of acquisition. The useful lives of intangible assets are assessed to be either finite or indefinite. Intangible assets with finite lives are subsequently amortised over the useful economic life and assessed for impairment whenever there is an indication that the intangible asset may be impaired. The amortisation period and the amortisation method for an intangible asset with a finite useful life are reviewed at the end of each reporting period.

Oil properties

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases

Definition of a lease (upon application of HKFRS 16 in accordance with transitions in note 3)

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

For contracts entered into or modified or arising from business combinations on or after the date of initial application, the Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception, modification date of acquisition date, as appropriate. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3)

Allocation of consideration to components of a contract

For a contract that contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

As a practical expedient, leases with similar characteristics are accounted on a portfolio basis when the Group reasonably expects that the effects on the consolidated financial statements would not differ materially from individual leases within the portfolio.

Short-term leases and leases of low-value assets

The Group applies the short-term lease recognition exemption to leases of property, plant and equipment, and land that have a lease term of twelve months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis or another systematic basis over the lease term.

Right-of-use assets

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease.

Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (continued)

Right-of-use assets (continued)

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term are depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

The Group presents right-of-use assets as a separate line item on the consolidated statement of financial position.

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 and are initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments includes:

- fixed payments (including in-substance fixed payments) less any lease incentives receivable;
- variable lease payments that depend on an index or a rate, initially measured using the index or rate as at the commencement date;
- amounts expected to be payable by the Group under residual value guarantees;
- the exercise price of a purchase option if the Group is reasonably certain to exercise the option; and
- payments of penalties for terminating a lease, if the lease term reflects the Group exercising an option to terminate the lease.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (upon application of HKFRS 16 in accordance with transitions in note 3) (continued)

Lease liabilities (continued)

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

The Group presents lease liabilities as a separate line item on the consolidated statement of financial position.

Lease modifications

The Group accounts for a lease modification as a separate lease if:

- the modification increases the scope of the lease by adding the right to use one or more underlying assets; and

- the consideration for the leases increases by an amount commensurate with the stand-alone price for the increase in scope and any appropriate adjustments to that stand-alone price to reflect the circumstances of the particular contract.

For a lease modification that is not accounted for as a separate lease, the Group remeasures the lease liability based on the lease term of the modified lease by discounting the revised lease payments using a revised discount rate at the effective date of the modification.

The Group accounts for the remeasurement of lease liabilities by making corresponding adjustments to the relevant right-of-use assets. When the modified contract contains a lease component and one or more additional lease or non-lease components, the Group allocates the consideration in the modified contract to each lease component on the basis of the relative stand-alone price of the lease component and the aggregate stand-alone price of the non-lease components.

The Group as a lessee (prior to 1 January 2019)

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

Assets held under finance leases are recognised as assets of the Group at their fair value at the inception of the lease or, if lower, at the present value of the minimum lease payments. The corresponding liability to the lessor is included in the consolidated statement of financial position as a finance lease obligation.

Lease payments are apportioned between finance expenses and reduction of the lease obligation so as to achieve a constant rate of interest on the remaining balance of the liability. Finance expenses are recognised immediately in profit or loss, unless they are directly attributable to qualifying assets, in which case they are capitalised in accordance with the Group's general policy on borrowing costs (see the accounting policy below). Contingent rentals are recognised as expenses in the periods in which they are incurred.

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Leases (continued)

The Group as a lessee (prior to 1 January 2019) (Continued)

Operating lease payments, including the cost of acquiring land held under operating leases, are recognised as an expense on a straight-line basis over the lease term. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

The Group as a lessor

Lease incentives relating to operating leases are considered as integral part of lease payments, the aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis.

Leases for which the Group is a lessor are classified as finance or operating leases. Whenever the terms of the leases transfer substantially all the risks and rewards incidental to ownership of an underlying asset to the lessee, the contract is classified as a finance lease. All other leases are classified as operating leases.

Rental income from operating leases is recognised in 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 such costs are recognised as an expense on a straight-line basis over the lease term except for investment properties measured using fair value model.

Rental income which is derived from the Group's ordinary course of business is presented as revenue.

Financial instruments

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets

Classification and subsequent measurement of financial assets

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

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

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

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

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

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

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

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

(i) Amortised cost and interest income

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Classification and subsequent measurement of financial assets (continued)

(ii) Equity instruments designated as at FVTOCI

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

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

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

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

Impairment of financial assets

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(i) Significant increase in credit risk

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

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

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

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

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

(ii) Definition of default

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(iii) Credit-impaired financial assets

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

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

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

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

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

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

(iv) Write-off policy

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

(v) Measurement and recognition of ECL

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial assets (continued)

Impairment of financial assets (continued)

(v) Measurement and recognition of ECL (continued)

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

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

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

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

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

Financial liabilities

Initial recognition and measurement

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

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

Subsequent measurement

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

Financial liabilities at fair value through profit or loss

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Financial liabilities (continued)

Financial liabilities at fair value through profit or loss (continued)

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

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

Other financial liabilities

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

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

Convertible bonds

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Derecognition of financial assets

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

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

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

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI, the cumulative gain or loss previously accumulated in investment revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

Derecognition of financial liabilities

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

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

Offsetting of financial instruments

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

Inventories

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprise cash on hand and demand deposits, and short term highly liquid investments that are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

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

Provisions

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

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

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

Asset retirement obligation

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

Income tax

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

Current tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Income tax (continued)

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

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

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

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

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

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

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

Government grants

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition

Revenue from contracts with customers

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

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

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

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

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

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

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

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Revenue recognition (continued)

Revenue from contracts with customers (continued)

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

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

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

Output method

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

Share-based payments

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

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

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

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Other employee benefits

For the Company and its subsidiaries located in Hong Kong

Pension scheme

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

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

(a) *Pension obligations*

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

(b) *Medical benefit costs*

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

(c) *Housing fund*

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

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

Pension scheme

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

Borrowing costs

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

4 SIGNIFICANT ACCOUNTING POLICIES (continued)

Dividends

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

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

Foreign currencies

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

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

The functional currencies of certain overseas subsidiaries and associates are currencies other than Hong Kong dollars. For the purpose of presenting consolidated financial statements, the assets and liabilities of these entities are translated into the presentation currency at the exchange rates prevailing at the end of the reporting period and their income and expenses are translated into Hong Kong dollars at the average exchange rates for the year, unless exchange rates fluctuate significantly during that year, in which case the exchange rates at the dates of the transactions are used. The resulting exchange differences are recognised in other comprehensive income and accumulated in the exchange fluctuation reserve.

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

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

Any goodwill arising on the acquisition of a foreign operation and any fair value adjustments to the carrying amounts of assets and liabilities arising on acquisition are treated as assets and liabilities of the foreign operation and translated at the exchange rate prevailing at the end of each reporting period. Exchange differences arising are recognised in other comprehensive income.

5 SIGNIFICANT ACCOUNTING JUDGMENTS AND ESTIMATES

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

Judgments

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

Impairment of assets

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

Income taxes

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

Estimation uncertainty

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

Impairment of goodwill

The Group determines whether goodwill is impaired at least on an annual basis. This requires an estimation of the value in use of the cash-generating units (the "CGU") to which the goodwill is allocated. Estimating the value in use requires the Group to make an estimate of the expected future cash flows from the cash-generating units and also to choose a suitable discount rate in order to calculate the present value of those cash flows. The carrying amount of goodwill at 31 December 2019 is HK$88,738,000 (2018: HK$102,988,000). Impairment of goodwill amounted to HK$14,250,000 (2018: HK$7,840,000) was charged to the profit or loss in respect of the current year. Details regarding the goodwill are disclosed in note 19 to the consolidated financial statements.

5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Impairment of investments in associates

The Group assesses whether there are any indications of impairment of associates at the end of each reporting period. Investments in associates are tested for impairment when there are indications that the carrying amounts may not be recoverable. An impairment exists when the carrying amount of an asset or a cash-generating unit exceeds its recoverable amount, which is the higher of its fair value less costs of disposal and its value in use. The calculation of the fair value less costs of disposal is based on available information from binding sales transactions in an arm's length transaction of similar assets or observable market prices less incremental costs for disposing of the asset. When value in use calculations are undertaken, management estimates the expected future cash flows from the asset or cash-generating unit and choose a suitable discount rate in order to calculate the present value of those cash flows. Impairment loss on interests in associates amounted to HK$242,000,000 (2018: HK$190,000,000) was recognised in profit or loss in respect of the current year, details of which are set out in note 18.

Impairment of property, plant and equipment

The recoverable amount of an item/a group of property, plant and equipment is the higher of its fair value less cost to sell and its value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset, which requires significant judgement relating to level of revenue and amount of operating costs. The Group's management uses all readily available information in determining an amount that is a reasonable approximation of the recoverable amount, including estimates based on reasonable and supportable assumptions and projections of revenue and operating costs. Changes in these estimates could have a significant impact on the carrying amount of the assets and could result in additional impairment charge or reversal of impairment in future periods. No impairment loss on property, plant and equipment was recognised or reversed in respect of the years ended 31 December 2019 and 31 December 2018.

Deferred tax assets

Deferred tax assets are recognised for all unused tax losses to the extent that it is probable that taxable profit will be available against which the losses can be utilised. Significant management judgement is required to determine the amount of deferred tax assets that can be recognised, based upon the likely timing and level of future taxable profits together with future tax planning strategies. No deferred tax assets relating to unused tax losses was recognised as at 31 December 2019 and 2018. Details regarding the deferred tax assets and deferred tax liabilities of the Group are disclosed in note 34 to the consolidated financial statements.

Useful lives of property, plant and equipment

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

Provision for impairment of receivables

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

5 SIGNIFICANT ACCOUNTING JUDGEMENTS AND ESTIMATES (continued)

Estimation uncertainty (continued)

Estimation of oil reserves

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

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

Estimation on asset retirement obligation

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

6 OPERATING SEGMENT INFORMATION

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

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

(a) Commodities trading: Trading of commodities;

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

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

Management monitors the results of the Group's operating segments separately for the purpose of making decisions about resources allocation and performance assessment. Segment performance is evaluated based on reportable segment profit/loss, which is a measure of adjusted profit/loss before tax. The adjusted profit/loss before tax is measured consistently with the Group's profit before tax except that interest income, finance costs, as well as head office and corporate expenses are excluded from such measurement. There were no intersegment sales in the current year (2018: Nil).

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

6 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2019

	Commodities trading HK$'000	Oil HK$'000	Logistics HK$'000	Total HK$'000
Segment revenue				
Sales to external customers	5,513,640	1,569	7,512	5,522,721
Segment profit (loss)	14,134	(71,296)	(278,828)	(335,990)
Interest income				342
Unallocated income				18,362
Unallocated expenses				(25,191)
Finance costs				(40,747)
Loss before tax				(383,224)
Income tax credit				4,412
Loss for the year				(378,812)
Segment assets	307,638	187,699	622,253	1,117,590
Unallocated assets				29,086
Total assets				1,146,676
Segment liabilities	171,725	48,260	48,200	268,185
Unallocated liabilities				515,672
Total liabilities				783,857
Other segment information				
Capital expenditure allocated to segments	–	237	94	331
Unallocated capital expenditure				–
Total capital expenditure				331
Depreciation and amortisation allocated to segments	–	2,434	11,693	14,127
Unallocated depreciation and amortisation				2,445
Total depreciation and amortisation				16,572
Impairment loss allocated to segments:				
Interests in associates	–	–	242,000	242,000
Goodwill	10,000	–	4,250	14,250
Oil properties	–	18,000	–	18,000
Prepayment, deposits and other receivables	4,474	–	–	4,474
Total impairment loss recognised	14,474	18,000	246,250	278,724

6 OPERATING SEGMENT INFORMATION (continued)

Year ended 31 December 2018

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

6 OPERATING SEGMENT INFORMATION (continued)

Geographical information

(a) Revenue from external customers

	2019 HK$'000	2018 HK$'000
PRC	**5,521,152**	11,531,567
Other countries	**1,569**	5,376
	5,522,721	11,536,943

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

(b) Non-current assets

	2019 HK$'000	2018 HK$'000
PRC	**520,195**	717,958
USA	**75,987**	201,681
Other countries	**215,876**	216,526
	812,058	1,136,165

The above non-current assets information is based on the location of the assets and exclude goodwill of HK$88,738,000 (2018: HK$102,988,000).

Information about major customers

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

	Revenue generated from	2019 HK$'000	2018 HK$'000
Customer A	Commodities trading	**2,371,154**	4,715,703
Customer B	Commodities trading	–	3,270,411

7 REVENUE, OTHER INCOME AND GAINS

Revenue

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

	2019 HK$'000	2018 HK$'000
Revenue from:		
Sales of goods	**5,519,831**	11,527,586
Rendering of services	**2,890**	9,357
	5,522,721	11,536,943

Other income and gains

An analysis of other income and gains is as follows:

	2019 HK$'000	2018 HK$'000
Bank interest income	**342**	91
Government grants receipt*	**1,346**	625
Gain on disposal of assets classified as held for sale	**18,049**	–
Sundry income	**1,669**	1,115
	21,406	1,831

* Various government grants have been received for the Group's supply of heat in the PRC and value-added tax and other taxes refunded for previous year. There are no unfulfilled conditions or contingencies attached to these grants.

8 FINANCE COSTS

	2019 HK$'000	2018 HK$'000
Interest expenses, net of reimbursement on borrowings, on:		
Bank loans, overdrafts and other loans	**34,982**	22,202
Finance leases	**5**	3
Lease liabilities	**1,127**	–
Convertible bonds	**–**	26,967
Promissory notes payable	**4,633**	–
	40,747	49,172

9 LOSS BEFORE TAX

The Group's loss before tax is arrived at after charging:

	2019 **HK$'000**	2018 HK$'000
Cost of inventories sold*	**5,486,377**	11,467,221
Auditors' remuneration		
Audit services	**900**	750
Other services	**–**	100
	900	850
Staff costs (excluding directors' remuneration) (note 10)		
Salaries and allowances	**10,032**	8,807
Retirement benefit costs	**496**	500
	10,528	9,307
Depreciation of property, plant and equipment	**9,590**	11,966
Depreciation of right-of-use assets	**4,613**	–
Amortisation of prepaid land lease payments	**–**	1,494
Accretion expenses – oil properties	**1,678**	815
Amortisation of oil properties	**126**	1,710
Loss of disposal of property, plant and equipment	**–**	24
Lease payments under short term leases	**313**	–
Minimum lease payments under operating leases in respect of land and buildings	**–**	2,129
Foreign exchange losses, net	**5**	69

* Cost of inventories sold includes depreciation charges of property, plant and equipment amounted to approximately HK$2,243,000 (2018: HK$2,820,000) which are not included in the respective total amount disclosed separately above.

Notes to Consolidated Financial Statements

31 December 2019

10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

	2019 HK$'000	2018 HK$'000
Directors' remuneration		
Fees	**1,006**	2,550
Other emoluments:		
Salaries, allowances and benefits in kind	**1,936**	1,680
Pension scheme contributions	**8**	33
	2,950	4,263
Chief executive's remuneration		
Fees	**–**	–
Other emoluments:		
Salaries, allowances and benefits in kind	**1,122**	–
Pension scheme contributions	**12**	–
	1,134	–
	4,084	4,263

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

(a) Executive directors

	Fees HK$'000	Salaries, allowances and benefits in kind HK$'000	Pension scheme contributions HK$'000	Total HK$'000
2019				
Zhao Cheng Shu	**–**	**198**	**8**	**206**
Wang Xiusong[4]	**–**	**–**	**–**	**–**
Zhang Rui	**–**	**–**	**–**	**–**
Cai Jianjun	**–**	**1,738**	**–**	**1,738**
	–	**1,936**	**8**	**1,944**
2018				
Ng Tze For[2]	–	1,200	15	1,215
Zhao Cheng Shu	–	480	18	498
Ding Zhiyi[1]	–	–	–	–
He Fengnian[3]	–	–	–	–
Wang Xiusong[4]	–	–	–	–
	–	1,680	33	1,713

1 Mr. Ding Zhiyi resigned with effect from 25 January 2019.

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

3 Mr. He Fengnian resigned with effect from 1 November 2018.

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

(b) Non-executive director

	Fees 2019 HK$'000	2018 HK$'000
Cai Jianjun[5]	**116**	1,800

5 Mr. Cai Jianjun re-designated as an executive director with effect from 25 January 2019.

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

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

(c) Independent non-executive directors

	Fees	
	2019	2018
	HK$'000	HK$'000
Choy So Yuk	**150**	150
Leung Yuen Wing	**150**	150
Wu Zhao	**150**	150
Zhu Dengkai	**150**	150
Liu Wei	**150**	150
Zou Mingwu	**140**	–
	890	750

(d) Chief executive

	Fees	Salaries, allowances and benefits in kind	Pension scheme contributions	Total
	HK$'000	HK$'000	HK$'000	HK$'000
2019				
Fang Gang[6] (Chief Executive Officer)	**–**	**1,122**	**12**	**1,134**

[6] Fang Gang was appointed on 11 April 2019

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2018: Nil).

There was no remuneration paid by the Group to the directors as an inducement to join or upon joining the Group or as compensation for loss of office during the year (2018: Nil).

11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the year included one director (2018: two directors), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining three (2018: three) highest paid employees, who are neither a director nor the chief executive of the Company, are as follows:

	2019 HK$'000	2018 HK$'000
Salaries, allowances and benefits in kind	**3,387**	2,857
Retirement scheme contributions	**51**	51
	3,438	2,908

The emoluments were within the following bands:

	Number of individuals	
	2019	2018
HK$ nil to HK$1,000,000	**1**	2
HK$ 1,000,001 to HK$1,500,000	**2**	1
	3	3

12 INCOME TAX CREDIT

	Total	
	2019 HK$'000	2018 HK$'000
Provision for the year		
– Hong Kong profits tax	**–**	–
– PRC corporate income tax	**2,377**	5,806
– US income tax	**–**	–
Over provision in prior years	**(6,789)**	–
Current tax (credit) charge	**(4,412)**	5,806
Deferred tax credit (Note 34)	**–**	(30,266)
Tax credit for the year	**(4,412)**	(24,460)

Hong Kong profits tax has been provided at the rate of 16.5% (2018: 16.5%) on the estimated assessable profits arising in Hong Kong for the year. Under the Corporate Income Tax Law of the PRC, the PRC corporate income tax is calculated at the rate of 25% (2018: 25%) on the Group's estimated assessable profits arising in the PRC. US income tax on the assessable profits arising in the USA is calculated at the rate of 21% (2018: 21%). However, no Hong Kong profits tax and US income tax have been provided as the Group did not generate any assessable profits arising in Hong Kong and the USA.

12 INCOME TAX CREDIT (continued)

A reconciliation of the income tax (credit)/expense to loss before tax using the statutory rates for the jurisdictions in which the Company and the majority of its subsidiaries are domiciled are as follows:

	Hong Kong		PRC		USA		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
2019								
Loss before tax	(349,576)		8,107		(41,755)		(383,224)	
Tax at the statutory tax rate	(57,680)	16.5	2,027	25.0	(8,769)	21.0	(64,422)	16.8
Profits attributable to associates	(679)		–		–		(679)	
Income not subject to tax	(6,573)		(274)		(8,899)		(15,746)	
Expenses not deductible for tax	57,960		4,900		1,067		63,927	
Overprovision in prior year	–		(11,245)		–		(11,245)	
Taxable temporary differences not recognised	–		–		16,601		16,601	
Tax losses not recognised	6,972		180		–		7,152	
Income tax credit	–		(4,412)		–		(4,412)	

	Hong Kong		PRC		USA		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
2018								
Loss before tax	(220,077)		(210,920)		(41,516)		(472,513)	
Tax at the statutory tax rate	(36,313)	16.5	(52,730)	25.0	(8,718)	21.0	(97,761)	20.7
Losses attributable to associates	472		–		–		472	
Income not subject to tax	(1,586)		(194)		(23,486)		(25,266)	
Expenses not deductible for tax	36,166		58,783		1,277		96,226	
Tax losses not recognised	1,261		32		576		1,869	
Income tax expense (credit)	–		5,891		(30,351)		(24,460)	

13 DIVIDENDS

No interim dividend was declared for the current year (2018: Nil).

The board of directors of the Company does not recommend the payment of a final dividend in respect of the year ended 31 December 2019 (2018: Nil).

14 LOSS PER SHARE

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

	2019 **HK$'000**	2018 HK$'000
Loss		
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(382,988)**	(453,358)
Effect of dilutive potential ordinary shares:		
Interest on convertible bonds	**–**	26,967
Loss for the purpose of diluted loss per share	**N/A**	N/A

	2019 **'000**	2018 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic loss per share	**5,703,616**	5,703,616
Effect of dilutive potential ordinary shares:		
Convertible bonds	**–**	746,796
Weighted average number of ordinary shares for the purpose of diluted loss per share	**N/A**	N/A

Diluted loss per share for the year ended 31 December 2019 is not presented as there is no potential ordinary shares in issue for the current year.

Diluted loss per share for the year ended 31 December 2018 is not presented because the Group sustained a loss for that year and the impact of conversion of convertible bonds outstanding during that year are regarded as anti-dilutive.

15 PROPERTY, PLANT AND EQUIPMENT

	Leasehold land and buildings HK$'000	Office equipment HK$'000	Oil equipment HK$'000	Machinery HK$'000	Motor vehicles HK$'000	Leasehold improvements, furniture and fixtures HK$'000	Construction in progress HK$'000	Total HK$'000
31 December 2019								
At 1 January 2019								
Cost	165,602	7,358	34,098	26,205	423	783	249	234,718
Accumulated depreciation and impairment	(11,704)	(3,460)	(13,319)	(3,202)	(197)	(503)	–	(32,385)
Carrying amount	153,898	3,898	20,779	23,003	226	280	249	202,333
At 1 January 2019, net of accumulated depreciation and impairment	153,898	3,898	20,779	23,003	226	280	249	202,333
Additions, at cost	–	38	–	–	–	56	–	94
Transferred from construction in progress	78	–	–	171	–	–	(249)	–
Disposals, at cost	–	(93)	(16,872)	–	–	–	–	(16,965)
Depreciation provided for the year	(7,003)	(487)	(2,260)	(2,024)	(59)	–	–	(11,833)
Depreciation eliminated on disposals	–	51	7,981	–	–	–	–	8,032
Exchange realignment	(1,944)	(60)	(658)	(373)	(3)	(5)	–	(3,043)
At 31 December 2019, net of accumulated depreciation and impairment	145,029	3,347	8,970	20,777	164	331	–	178,618
At 31 December 2019								
Cost	162,819	7,179	17,534	25,918	416	828	–	214,694
Accumulated depreciation and impairment	(17,790)	(3,832)	(8,564)	(5,141)	(252)	(497)	–	(36,076)
Carrying amount	145,029	3,347	8,970	20,777	164	331	–	178,618

15 PROPERTY, PLANT AND EQUIPMENT (continued)

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

15 PROPERTY, PLANT AND EQUIPMENT (continued)

Notes:

(a) The Group's leasehold land and buildings at 31 December 2019 and 31 December 2018 represent buildings as follows:

	2019 HK$'000	2018 HK$'000
Buildings situated on leasehold land:		
In the PRC	**143,659**	152,474
In the USA	**1,370**	1,424
	145,029	153,898

(b) During the year ended 31 December 2018, the Company entered into an agreement with a third party for the disposal of the Group's land and building in Hong Kong for a consideration of HK$30,993,160. Accordingly, this leasehold property was reclassified to asset classified as held for sale upon execution of the agreement (Note 25).

16 RIGHT-OF-USE ASSETS

	Leased land HK$'000 (Note a)	Leased properties HK$'000 (Note b)	Total HK$'000
Upon adoption of HKFRS 16			
– reclassified from prepaid land lease payments	52,293	–	52,293
– recognition of right-of-use assets and lease liabilities	–	13,393	13,393
Carrying amount at 1 January 2019	52,293	13,393	65,686
Additions	9,273	5,332	14,605
Depreciation for the year ended 31 December 2019	(1,518)	(3,095)	(4,613)
Exchange realignment	(1,086)	(224)	(1,310)
Carrying amount at 31 December 2019	58,962	15,406	74,368

Notes:

(a) The leased land represents land use rights of certain land in the PRC acquired by the Group. Such leased land is amortised over the periods of 40 years.

(b) The Group leases certain properties, including land and pier, office premises and staff quarter, under non-cancellable operating lease arrangements. Lease for the land and pier is negotiated for a term of 30 years and leases for office premise and staff quarter are negotiated for terms of one to two years. Lease terms are negotiated on an individual basis and contain a wide range of different terms and conditions. In determining the lease term and assessing the length of the non-cancellable period, the Group applies the definition of a contract and determines the period for which the contract is enforceable.

17 PREPAID LAND LEASE PAYMENTS

	2019 HK$'000	2018 HK$'000
Cost:		
At 1 January		
– before adoption of HKFRS 16	**55,800**	58,938
– reclassified to right-of-use assets	**(55,800)**	–
– after adoption of HKFRS 16	**–**	58,938
Exchange realignment	**–**	(3,058)
At 31 December	**–**	55,880
Accumulated amortisation:		
At 1 January		
– before adoption of HKFRS 16	**3,587**	2,266
– reclassified to right-of-use assets	**(3,587)**	–
– after adoption of HKFRS 16	**–**	2,266
Charge for the year	**–**	1,494
Exchange realignment	**–**	(173)
At 31 December	**–**	3,587
Carrying amount	**–**	52,293
Analysed for reporting purposes as:		
Current assets	**–**	1,482
Non-current assets	**–**	50,811
	–	52,293

18 INTERESTS IN ASSOCIATES

	2019 HK$'000	2018 HK$'000
Cost of investments in unlisted associates	**1,234,691**	1,242,560
Share of post-acquisition profits (losses) and reserves	**1,260**	(2,858)
Share of reserve of an associate	**128**	168
Impairment loss recognised	**(744,024)**	(502,024)
	492,055	737,846

Included in cost of investments in unlisted associates are goodwill arising on acquisition amounted to HK$832,433,000 (2018: HK$832,433,000).

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

Name	Place of establishment/ registration and operations	Paid up capital	Equity interest attributable to the Group 2019	2018	Principal activities
RockEast Energy Corporation ("RockEast")	Canada	CAD30,364,992	**28.19%**	30%	Exploration and production of oil
Inner Mongolia Eurasian Continent Bridge Logistics Limited Liability Company ^ ("Mongolia Logistics")	Inner Mongolia Province, the PRC	RMB5,000,000	**39%**	39%	Provision of logistics and warehousing services
Wulanchabu Integrated Logistics Park Company Limited ("Wulanchabu")	Inner Mongolia Province, the PRC	RMB50,000,000	**40%**	40%	Provision of logistics and warehousing services
Qian'an ENN Energy Limited ^ @	Hebei Province, the PRC	RMB64,500,000	**–**	–	Investment in natural gas manufacturing

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

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

18 INTERESTS IN ASSOCIATES (continued)

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

Movements of the interests in associates are as follows:

	2019	2018
	HK$'000	HK$'000
Balance at 1 January	**737,846**	936,749
Share of post-acquisition profits (losses) for the year	**4,118**	(2,858)
Share of reserve of an associate	**(40)**	168
Impairment loss recognised (Note a)	**(242,000)**	(190,000)
Impairment loss reversed (Note b)	**–**	15,910
Deemed disposal/disposal of associates (Note c)	**(7,891)**	(21,756)
Exchange realignment	**22**	(367)
Balance at 31 December	**492,055**	737,846

Notes:

(a) During the year, management of the Group conducted a review of the profitability of the businesses undertaken by the associates, Mongolia Logistics and Wulanchabu, and is of the view that it is appropriate to make impairment loss on investments in Mongolia Logistics and Wulanchabu amounted to HK$46,000,000 (2018: HK$35,000,000) and HK$196,000,000 (2018: HK$155,000,000) respectively, which are based on their estimated recoverable amount on value in use calculation by reference to their business valuation conducted by an independent external valuer, Roma Appraisals Limited, an independent firm of professional valuers with recognised qualifications and experience. The discount rates applied to the cash flow projections of Mongolia Logistics and Wulanchabu are 21.44% (2018: 18.39%) and 17.67% (2018: 16%) respectively and the growth rate used to extrapolate the cash flows of Mongolia Logistics and Wulanchabu beyond the five-year period are 3% (2018: 3%) and 3% (2018: 3%) respectively. The impairment loss, which was caused by the downward revision of the future profitability of the business undertaken by Mongolia Logistics and Wulanchabu, impacted by the potential slowdown of railway transportation industry, amounted to a total of HK$242,000,000 (2018: HK$190,000,000) was recognised in profit or loss in respect of the year.

(b) During the year ended 31 December 2018, management of the Group conducted impairment assessment of the Group's investment in RockEast by reference to oil reserves held by RockEast and was of the view that the recoverable amount of oil reserves, based on their estimated fair value less cost of disposal, increased significantly in line with the expected increase in volume of the oil reserves, accordingly, reversal of the impairment loss amounted to HK$15,910,000 previously made against the investment in RockEast was made for that year. No impairment loss was recognised on interest in RockEast in respect of the current year as management of the Group is of the view that the recoverable amount of the interest in RockEast is not less than their carrying amount at the end of the reporting period.

(c) During the current year, RockEast issued additional common shares to its shareholders, other than the Group, which resulted in the dilution of the Group's equity interest in RockEast from 30% to 28.19%. The loss on deemed disposal amounted to HK$7,891,000 (2018: Nil) arising from the dilution of the Group's equity interest in RockEast was recognised in profit or loss in respect of the current year.

During the prior year ended 31 December 2018, the Group disposed of its 21% interest in an associate, Qian'an ENN Energy Limited, with the carrying amount of HK$21,756,000, which resulted in a loss on disposal of HK$8,757,000 recognised in profit or loss in respect of that year.

18 INTERESTS IN ASSOCIATES (continued)

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

	RockEast	
	2019	2018
	HK$'000	HK$'000
Non-current assets	**553,012**	576,680
Current assets	**26,524**	3,343
Current liabilities	**(39,097)**	(37,906)
Non-current liabilities	**(115,448)**	(140,599)
Net assets	**424,991**	401,518
Revenue	**113,088**	78,101
Profit before tax	**31,558**	6,938
Income tax expense	**(5,729)**	(1,941)
Profit for the year	**25,829**	4,997
Other comprehensive income	**–**	–
Total comprehensive income	**25,829**	4,997
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**28.19%**	30%
Group's share of net assets of the associates, excluding goodwill	**119,805**	120,455
Goodwill on acquisition	**408,095**	408,095
Less: Accumulated impairment	**(312,024)**	(312,024)
Carrying amount of the investment	**215,876**	216,526

18 INTERESTS IN ASSOCIATES (continued)

	Mongolia Logistics	
	2019	2018
	HK$'000	HK$'000
Non-current assets	**277,446**	286,811
Current assets	**3,067**	19,996
Current liabilities	**(272,970)**	(290,793)
Non-current liabilities	**–**	(360)
Net assets	**7,543**	15,654
Revenue	**3,589**	13,425
Loss before tax	**(8,111)**	(11,174)
Income tax expense	**–**	–
Loss for the year	**(8,111)**	(11,174)
Other comprehensive income	**–**	–
Total comprehensive income	**(8,111)**	(11,174)
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**39%**	39%
Group's share of net assets of the associates, excluding goodwill	**2,942**	6,105
Goodwill on acquisition	**132,714**	132,714
Less: Accumulated impairment	**(81,000)**	(35,000)
Carrying amount of the investment	**54,656**	103,819

18 INTERESTS IN ASSOCIATES (continued)

	Wulanchabu 2019 HK$'000	2018 HK$'000
Non-current assets	**635,802**	674,790
Current assets	**67,702**	72,624
Current liabilities	**(1,256)**	(45,222)
Non-current liabilities	**–**	–
Net assets	**702,248**	702,192
Revenue	**–**	–
Profit before tax	**–**	–
Income tax expense	**–**	–
Profit for the year	**–**	–
Other comprehensive income	**–**	–
Total comprehensive income	**–**	–
Reconciliation to the Group's interest in the associates:		
Proportion of the Group's ownership	**40%**	40%
Group's share of net assets of the associates, excluding goodwill	**280,899**	280,877
Goodwill on acquisition	**291,624**	291,624
Less: Accumulated impairment	**(351,000)**	(155,000)
Carrying amount of the investment	**221,523**	417,501

19 GOODWILL

	2019 HK$'000	2018 HK$'000
At 1 January		
Cost	**282,375**	282,375
Accumulated impairment	**(179,387)**	(171,547)
Carrying amount	**102,988**	110,828
Carrying amount at 1 January, net of accumulated impairment	**102,988**	110,828
Impairment loss recognised for the year	**(14,250)**	(7,840)
Carrying amount at 31 December	**88,738**	102,988
At 31 December		
Cost	**282,375**	282,375
Accumulated impairment	**(193,637)**	(179,387)
Carrying amount	**88,738**	102,988

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

	Oil CGU	Logistics CGU attributable to		
		Hai Hui	Tianjin Ruiqi Group	Total
	HK$'000	HK$'000	HK$'000	HK$'000
As at 31 December 2019				
Goodwill before impairment	**121,182**	**50,959**	**110,234**	**282,375**
Impairment of goodwill	**(121,182)**	**(50,959)**	**(21,496)**	**(193,637)**
Carrying amount at 31 December 2019	**–**	**–**	**88,738**	**88,738**
As at 31 December 2018				
Goodwill before impairment	121,182	50,959	110,234	282,375
Impairment of goodwill	(121,182)	(46,709)	(11,496)	(179,387)
Carrying amount at 31 December 2018	–	4,250	98,738	102,988

Oil CGU

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

Impairment of goodwill

The goodwill from the acquisition of EPI Group was fully impaired during the year ended 31 December 2017.

19 GOODWILL (continued)

Logistics CGU

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

Impairment test of goodwill

In view that the business operations of Hai Hui were scaled down significantly, the goodwill from the acquisition of Hai Hui was fully impaired and additional impairment loss on goodwill amounted to HK$4,250,000 (2018: HK$7,840,000) was charged to profit or loss in respect of the current year.

The directors of the Company conducted assessment of the recoverable amount of Tianjin Ruiqi Group with reference to the valuation conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using the income approach methodology. The discount rate applied to the cash flow projections of Tianjin Ruiqi Group is 20.5% (2018: 22.7%) and the growth rate used to extrapolate the cash flows of Tianjin Ruiqi Group beyond the five-year period is 3% (2018: 3%). Based on the assessment, the directors considered it appropriate to recognise impairment of goodwill relating to Tianjin Ruiqi Group, as a result of the expected downward adjustment of the profitability of the subsidiary amounted to HK$10,000,000 (2018: Nil), which was charged to profit or loss in respect of the year.

20 OIL PROPERTIES

	2019 **HK$'000**	2018 HK$'000
At 1 January		
Cost	**315,959**	313,750
Accumulated amortisation and impairment	**(170,784)**	(134,454)
Carrying amount	**145,175**	179,296
At 1 January, cost less accumulated amortisation and impairment	**145,175**	179,296
Additions, at cost	**237**	1,464
Disposals	**(59,746)**	–
Amortisation for the year	**(126)**	(1,710)
Impairment loss recognised in profit or loss	**(18,000)**	(34,332)
Exchange realignment	**(523)**	457
At 31 December, cost less accumulated amortisation and impairment	**67,017**	145,175
At 31 December		
Cost	**267,985**	315,959
Accumulated amortisation and impairment	**(200,968)**	(170,784)
Carrying amount	**67,017**	145,175

20 OIL PROPERTIES (Continued)

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

During the year, oil properties with the carrying amount of HK$59,746,000 (2018: Nil) were disposed of, which gave rise to a loss on disposal of HK$56,945,000 (2018: Nil) charged to profit and loss in respect of the current year.

The recoverable amount of the oil properties is determined based on a value in use calculation by reference to the valuation conducted by Greater China Appraisal Limited, an independent firm of professional valuers with recognised qualifications and experience, using income approach methodology. The discount rate applied to the cash flow projections is 20.3% (2018: 15.6%) and the growth rate used to extrapolate the cash flows of the oil properties beyond the five-year period is 2.3% (2018: 2.1%). Based on the assessments, the directors of the Company consider it appropriate to recognise an impairment loss of approximately HK$18,000,000 for the current year (2018: HK$34,332,000).

21 INVENTORIES

	2019 **HK$'000**	2018 HK$'000
Finished goods	**577**	567
	577	567

22 TRADE AND BILLS RECEIVABLES

	2019 HK$'000	2018 HK$'000
Trade receivables	**101,051**	714,180
Less: Impairment of trade receivables	**(100,477)**	(101,590)
	574	612,590

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

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

	2019 HK$'000	2018 HK$'000
Not more than 30 days	**574**	612,477
31-60 days	**13**	20
61-90 days	**40**	286
91-365 days	**59**	253
Over one year	**100,365**	101,144
	101,051	714,180

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

	2019 HK$'000	2018 HK$'000
Not past due	**574**	612,319
Past due:		
1 to 3 months	**–**	40
3 to 12 months	**–**	231
	574	612,590

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

	2019 HK$'000	2018 HK$'000
At 1 January	**101,590**	72,421
Impairment losses recognised	**–**	92,955
Write off during the year	**–**	(62,553)
Exchange realignment	**(1,113)**	(1,233)
At 31 December	**100,477**	101,590

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

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

23 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019	2018
	HK$'000	HK$'000
Deposits for purchases of goods (Note (a))	**212,283**	821,799
Prepayments and other deposits	**122**	170
Other receivables (Note (b))	**17,806**	33,137
	230,211	855,106

Notes:

(a) The deposits at 31 December 2019 amounted to HK$212,283,000 (2018: HK$821,799,000) represent deposits paid for purchases of commodities for trading purposes, less impairment loss recognised. In view of the uncertainty of financial position of certain suppliers, management considered it appropriate to recognise impairment losses amounted to HK$4,474,000 (2018: HK$93,742,000) on such deposits made to those suppliers which was charged to profit or loss in respect of the current year.

Included in the deposits for purchase of goods are deposits paid to a non-controlling interest of a subsidiary amounted to HK$53,125,000 (2018: HK$59,761,000).

(b) For the year ended 31 December 2018, in view of the uncertainty of financial position of certain debtors, impairment loss on other receivables amounted to HK$20,268,000 was recognised in profit or loss in respect of that year.

(c) As at 31 December 2019 and 2018, deposits and other receivables were substantially denominated in the functional currencies of the relevant group entities.

24 CASH AND CASH EQUIVALENTS

	2019	2018
	HK$'000	HK$'000
Cash and bank balances	**4,369**	43,579
Cash and cash equivalents	**4,369**	43,579

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,018,000 (2018: HK$42,602,000). The RMB is not freely convertible into other currencies. However, under Mainland China's Foreign Exchange Control Regulations and Administration of Settlement, Sale and Payment of Foreign Exchange Regulations, the Group was permitted to exchange RMB for other currencies through banks authorised to conduct foreign exchange business.

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

As 31 December 2019, the Group's cash and cash equivalents to the extent of HK$1,706,000 (2018: HK$278,000) were denominated in currencies other than the functional currencies of the relevant group entities.

25 ASSETS CLASSIFIED AS HELD FOR SALE

	2019 HK$'000	2018 HK$'000
Assets classified as held for sale:		
Land and buildings	–	12,688
	–	12,688

As referred to note 15, during the year ended 31 December 2018, the Company entered into an agreement with a third party for the disposal of the Group's land and buildings in Hong Kong for a consideration of HK$30,993,160 (before expenses). Accordingly, this leasehold property has been reclassified from property, plant and equipment to assets classified as held for sale. Completion of the disposal of the property took place in January 2019.

26 TRADE PAYABLES

	2019 HK$'000	2018 HK$'000
Trade payables	**80,281**	708,494

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

	2019 HK$'000	2018 HK$'000
Not more than 30 days	**79,767**	655,637
31-60 days	**61**	46
61-90 days	**1**	138
91-365 days	**340**	28,315
Over one year	**112**	24,358
	80,281	708,494

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

27 OTHER PAYABLES AND ACCRUALS

	2019 HK$'000	2018 HK$'000
Customer advances	**74,380**	742,973
Other payables	**69,490**	48,158
Value-added tax and on other taxes payables	**4,808**	2,132
Accrued interest on bank and other borrowings	**6,458**	3,552
Accrued interest on convertible bonds	**–**	2,695
Lease liabilities (Note 32)	**2,572**	–
Other accrued charges	**11,266**	9,842
	168,974	809,352
Less: Non-current portion	**(18,778)**	–
Current portion included in current liabilities	**150,196**	809,352

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

As at 31 December 2019 and 2018, other payables and accruals were substantially denominated in the functional currencies of the relevant group entities.

The Group receives advances from customers for trading commodities as established in contracts which is regarded as contract liabilities.

The following table shows the amount of the revenue recognised in the current reporting period in relation to carried-forward contract liabilities:

	2019 HK$'000	2018 HK$'000
Revenue recognised that was included in the contract liabilities balance at the beginning of the year	**742,973**	805,713

28 BANK AND OTHER BORROWINGS

	2019 HK$'000	2018 HK$'000
Secured bank loans and overdrafts repayable within one year or on demand	**27,966**	43,182
Unsecured other borrowings repayable within one year	**401,643**	371,230
Total borrowings	**429,609**	414,412
Analysed for reporting purposes as:		
Current liabilities	**394,379**	414,412
Non-current liabilities	**35,230**	–
	429,609	414,412

Included in secured bank loans and overdrafts are bank overdrafts amounted to HK$Nil (2018: HK$14,722,000).

Included in unsecured other borrowings are the convertible bonds with the principal amount of HK$300,000,000 (note 29), reclassified upon the expiration of the maturity period of the bonds. On 8 January 2019, the Company and the holder of the convertible bonds entered into an agreement, under which the bond holder has agreed for the repayment of the convertible bonds with accrued interests on or before 3 June 2019. Interest were charged on the outstanding balance of the bond at the interest rate of 6% per annum for the period from 3 December 2018 to 3 June 2019 and 11% per annum for any period subsequent to 3 June 2019. No repayment of the bonds were made by the Group during the year. The aggregate outstanding balance of the bonds together with interest thereon amounted to HK$366,413,000 (2018: HK$336,000,000) was included in bank and other borrowings as at 31 December 2019.

The Group's bank and other borrowings (other than those disclosed above) carried interests ranged from 3% to 10%. These bank and other borrowings to the extent of HK$27,966,000 (2018: HK$43,182,000) are secured by corporate guarantees given by the Company and certain independent third parties. The secured bank and other borrowings at 31 December 2018 were also secured by the Group's land and building (included in assets classified as held for sale) with the carrying amount of HK$12,688,000 as at that date (note 25).

As 31 December 2019 and 2018, bank and other borrowings were substantially denominated in the functional currencies of the relevant group entities.

29 CONVERTIBLE BONDS

On 2 December 2015, the Company issued to Xinya Global Limited, an strategic investor of the Company, a three-year convertible bonds with an aggregate principal amounts of HK$300,000,000 (the "CB") for a consideration of HK$300,000,000. Pursuant to the terms of the CB, the CB carries interest at 6% per annum, which is payable annually in arrears on 3 December. The maturity date of the CB is the third anniversary of the date of issue of the CB (the "Maturity Date"). The CB is convertible into shares at the conversion price of HK$0.376 per share, subject to adjustments, which was adjusted to HK$0.372 per share following the placing of the Company's new shares in November 2016. Under the terms of the CB, unless previously redeemed, converted, purchased or cancelled, the Company shall redeem the outstanding CB at 100% of the principal amount on the Maturity Date. The CB was not redeemed or converted, and remained outstanding at the Maturity Date of 3 December 2018. The conversion right under the convertible bonds lapsed and the outstanding balance of the convertible bonds were reclassified to bank and other borrowings.

Movements of the liability components of the CB is as follows:

	HK$'000
Carrying amount at 1 January 2018	**289,553**
Interest expense (Note 8)	**26,967**
Accrued interest included in other payables and accruals in current liabilities	**(16,520)**
Reclassified to bank and other borrowings	**(300,000)**
Carrying amount at 31 December 2018 and 31 December 2019	–

30 PROMISSORY NOTES PAYABLE

	2019 HK$'000	2018 HK$'000
At 1 January	**52,000**	52,000
Interest expenses charged (Note 8)	**4,633**	–
Repayment during the year	**(2,500)**	–
At 31 December	**54,133**	52,000
Analysed for reporting purposes as:		
Current liabilities	**54,133**	52,000

The promissory notes payable was issued by the Company in December 2014 to an independent third party, Wise Perfection Limited, as part of the consideration for the acquisition of 100% equity interest in a subsidiary, Earning Power Inc. Such notes payable with the principal amount of HK$52,000,000 (2018: HK$52,000,000) were not repaid upon their maturity date of 18 December 2017 and remained outstanding as at 31 December 2018.

On 5 July 2019, the Company entered into an agreement (the "Settlement Agreement") with the promissory note holder, under which the Company has agreed to pay to the promissory note holder an interest of HK$4,633,000 which is calculated at 6% per annum on the outstanding principal amount for the period from the maturity date to 13 June 2019; and the Company shall settle the promissory note, including the principal amount and interest amounted to a total of HK$56,633,000, by 15 instalments over 6 years commencing from 5 July 2019. Pursuant to the Settlement Agreement, if the Company fails to pay any sum payable under the agreement that constitutes default, the Company shall be liable to pay additional interest to the holder calculated at 6% per annum on the outstanding indebtedness from the date of default until full payment of all outstanding indebtedness is made by the Group.

During the current year, the Company paid a sum of HK$2,500,000 to the promissory note holder, upon signing of the Settlement Agreement and no additional payment were made by the Group, which may constitute a default under the Settlement Agreement. Accordingly, the promissory notes payable are wholly regarded as current liabilities at 31 December 2019 presented in the consolidated statement of financial position.

31 OBLIGATIONS UNDER FINANCE LEASES

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

	Minimum lease payments		Present value of minimum lease payments	
	2019	2018	**2019**	2018
	HK$'000	HK$'000	**HK$'000**	HK$'000
Within one year	**88**	89	**86**	86
In the second to fifth years, inclusive	**110**	199	**110**	197
	198	288	**196**	283
Less: Future finance charges	**(2)**	(5)	**–**	–
Present value of lease obligations	**196**	283	**196**	283
Less: Amount due for settlement within 12 months			**(86)**	(86)
Amount due for settlement after 12 months			**110**	197

32 LEASE LIABILITIES

	2019
	HK$'000
Lease liabilities payable:	
Within one year	**2,572**
Within a period of more than one year but not more than two years	**369**
Within a period of more than two years but less than five years	**1,225**
More than five years	**11,489**
Total lease liabilities payable	**15,655**
Less: Amount due for settlement within twelve months included in other payables and accruals (Note 27)	**(2,572)**
Amount due for settlement after twelve months shown under non-current liabilities	**13,083**

33 ASSETS RETIREMENT OBLIGATIONS

	2019 HK$'000	2018 HK$'000
At 1 January	**12,053**	11,393
Utilised for the year	**(88)**	(181)
Accretion expenses recognised	**1,678**	815
Eliminated upon disposal of oil properties	**(7,966)**	–
Exchange realignment	**(26)**	26
At 31 December	**5,651**	12,053

The obligations represent the present value of the estimated future expenditure, including abandonment costs, in relation to the oil properties of the Group upon their retirements. The assets retirement obligations are estimated at the end of each of the reporting period, the discount rate applied to assets retirement obligations is 5.25% (2018: 5.25%).

34 DEFERRED TAX LIABILITIES

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

	Fair value adjustments arising from business combination HK$'000	Book value in excess of tax base of property, plant and equipment HK$'000	Total HK$'000
At 1 January 2018	56,987	5,345	62,332
Deferred tax credited to profit or loss (Note 12)	(27,481)	(2,785)	(30,266)
Exchange realignment	(89)	100	11
At 31 December 2018 and 1 January 2019	**29,417**	**2,660**	**32,077**
Exchange realignment	**(208)**	**61**	**(147)**
At 31 December 2019	**29,209**	**2,721**	**31,930**

34 DEFERRED TAX LIABILITIES (continued)

The Group has unused tax losses arising in Hong Kong of approximately HK$6,244,000 (2018: HK$31,843) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

Pursuant to the PRC Corporate Income Tax Law, a 10% withholding tax is levied on dividends declared to foreign investors from the foreign investment enterprises established in the PRC. The requirement has become effective from 1 January 2008 and applies to earnings after 31 December 2007. A lower withholding tax rate may be applied if there is a tax treaty between China and the jurisdiction of the foreign investors. For the Group, the applicable rate is 5%. The Group is therefore liable to withholding taxes on dividends distributed by those subsidiaries established in the PRC in respect of earnings generated from 1 January 2008. At 31 December 2019, no deferred tax has been recognised for withholding taxes that would be payable on the unremitted earnings of the Group's subsidiaries that are subject to withholding taxes as there were no unremitted earnings up to that date (2018: Nil).

35 SHARE CAPITAL

	2019 **HK$'000**	2018 HK$'000
Authorised:		
200,000,000,000 ordinary shares of HK$0.01 each	**2,000,000**	2,000,000
Issued and fully paid:		
5,703,615,592 (2018: 5,703,615,592) ordinary shares of HK$0.01 each	**57,036**	57,036

There were no movements in the issued share capital of the Company and its share premium during each of the years ended 31 December 2019 and 31 December 2018.

36 SHARE OPTION SCHEME

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

(a) The maximum number of shares in respect of which share options may be granted under the Scheme must not exceed 10% of the number of shares of the Company in issue as at the Adoption Date and the maximum number of shares which may be allotted and issued upon the exercise of all outstanding options granted and yet to be exercised under the Scheme and any other share option schemes of the Company must not, in aggregate, exceed 30% of the total number of shares in issue from time to time. The maximum number of shares in respect of which options may be granted under the Scheme is 430,988,737 shares, representing 10% of the total number of shares in issue as at the Adoption Date and representing approximately 7.56% of the issued share capital of the Company as at 31 December 2019 and the date of this annual report. The maximum number of shares to be issued under the share options granted to each Participant in the Scheme within any 12-month period is limited to 1% of the number of shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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

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

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

37 RESERVES

The amounts of the Group's reserves and the movements therein for the year are presented in the consolidated statement of changes in equity on page 60.

(a) Share option reserve

	2019 HK$'000	2018 HK$'000
Share option reserve attributable to		
– the Company	–	–
– associates	3,632	3,672
	3,632	3,672

Details of the share options granted by the Company are set out in note 36.

(b) Capital reserve

Capital reserve is analysed as follows:

	2019 HK$'000	2018 HK$'000
Statutory surplus reserve (Note i)	178,368	178,168
	178,368	178,168

Movements during the year

	2019 HK$'000	2018 HK$'000
Balance at 1 January	178,168	176,106
Transferred from accumulated losses	200	2,062
Balance at 31 December	178,368	178,168

(i) Statutory surplus reserve ("SSR")

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

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

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

38 DISPOSAL OF SUBSIDIARIES

The Group has not disposed of any subsidiaries during the year ended 31 December 2019.

Disposal took place during the year ended 31 December 2018

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

	HK$'000
Consideration for the disposal:	
Consideration received in:	
– year ended 31 December 2017	13,808
– year ended 31 December 2018	5,155
Exchange loss	(472)
	18,491

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

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

	HK$'000
Net cash inflow on disposal of subsidiaries	
Consideration received in year ended 31 December 2018	5,155
Less: Cash and cash equivalents disposed of	–
	5,155

39 RECONCILIATION OF LIABILITIES ARISING FROM FINANCING ACTIVITIES

The table below details changes in the Group's liabilities arising from financing activities for the year ended 31 December 2019 and 31 December 2018, including both cash and non-cash changes. Liabilities arising from financing activities are those for which cash flows were, or future cash flows will be classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Interest payable (included in other payables and accruals)	Convertible bonds	Promissory notes payable	Obligations under finance leases	Lease liabilities	Bank and other borrowings (excluded bank overdraft)	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
As at 1 January 2018	22,175	289,553	52,000	368	–	131,584	495,680
Financing cash outflows	(18,653)	–	–	(86)	–	(65,104)	(83,843)
Interest payable reclassified to other payables and accruals	16,520	(16,520)	–	–	–	–	–
Interest payable and convertible bonds reclassified to bank and other borrowings	(36,000)	(300,000)	–	–	–	336,000	–
Finance costs for the year	22,205	26,967	–	–	–	–	49,172
Exchange realignment	–	–	–	1	–	(2,790)	(2,789)
As at 31 December 2018	**6,247**	**–**	**52,000**	**283**	**–**	**399,690**	**458,220**
Adjustment upon application of HKFRS 16	**–**	**–**	**–**	**–**	**13,393**	**–**	**13,393**
As at 1 January 2019	**6,247**	**–**	**52,000**	**283**	**13,393**	**399,690**	**471,613**
Financing cash outflows	**(4,364)**	**–**	**(2,500)**	**(89)**	**(13,238)**	**–**	**(20,191)**
Finance costs for the year	**4,575**	**–**	**4,633**	**–**	**1,127**	**30,412**	**40,747**
Increase in lease liabilities on addition of right-of-use assets	**–**	**–**	**–**	**–**	**14,605**	**–**	**14,605**
Exchange realignment	**–**	**–**	**–**	**2**	**(232)**	**(493)**	**(723)**
As at 31 December 2019	**6,458**	**–**	**54,133**	**196**	**15,655**	**429,609**	**506,051**

40 OPERATING LEASE ARRANGEMENTS

As lessee

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

	2018 HK$'000
Within one year	1,038
In the second to fifth years, inclusive	4,359
After five years	20,410
	25,807

41 RELATED PARTY TRANSACTIONS

Compensation of key management personnel of the Group

	2019 HK$'000	2018 HK$'000
Short term employee benefits	**6,557**	5,348
Post-employment benefits	**51**	51
Total compensation to key management personnel	**6,608**	5,399

42 FINANCIAL INSTRUMENTS BY CATEGORY

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

Financial assets at 31 December 2019

	Financial assets at amortised cost HK$'000
Trade and bills receivables	**574**
Financial assets included in prepayments, deposits and other receivables	**230,089**
Cash and cash equivalents	**4,369**
	235,032

42 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

Financial assets at 31 December 2018

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

Financial liabilities at 31 December 2019

	Financial liabilities at amortised cost HK$'000
Trade payables	**80,281**
Financial liabilities included in other payables and accruals	**108,389**
Bank and other borrowings	**429,609**
Promissory notes payable	**54,133**
Obligations under finance leases	**196**
Lease liabilities	**15,655**
	688,263

Financial liabilities at 31 December 2018

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

43 FAIR VALUE OF FINANCIAL INSTRUMENTS

The following table illustrates the fair value measurement hierarchy of the Group's financial instruments:

(a) Fair value of financial assets and financial liabilities that are not measured at fair value

The directors consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values. The fair values are determined in accordance with generally accepted pricing models based on a discounted cash flow analysis, with the most significant input being the discount rate that reflects the credit risk of counterparties.

(b) Reconciliation of Level 3 fair value measurement

Reconciliation of Level 3 fair value measurement is not presented as the Group had no financial assets or financial liabilities that are measured at fair value at end of the reporting period.

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include promissory notes payable, bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade and other receivables and trade and other payables and accruals, which arise directly from its operations.

The risks associated with the Group's financial instruments include interest rate risk, foreign currency risk, credit risk and liquidity risk. The board of directors reviews and agrees policies for managing each of these risks and they are summarised below.

Interest rate risk

The Group's exposure to the risk of changes in market interest rates relates primarily to the Group's bank deposits and bank borrowings with floating interest rates. The other borrowings carried interest at fixed interest rates. The Group regularly reviews and monitors the floating interest rate in order to manage its interest rate risks.

The sensitivity analyses below have been determined based on the exposure to bank deposits and bank borrowings at floating interest rates at the end of the reporting period. The analysis is prepared assuming the amount of these assets and liabilities outstanding at the end of the reporting period was outstanding for the whole year.

A 100 basis point increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates. If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's loss for the year ended 31 December 2019 would increase/decrease by HK$204,000 (2018: loss for the year would increase/decrease by HK$419,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings.

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Foreign currency risk

The Group has transactional currency exposures as the sales and purchases of the Group were mainly transacted in Renminbi ("RMB") and United States Dollars ("USD"). The Group manages its transactional currency exposures by matching as far as possible, its receipts and payments in each individual currency. The Group monitors the foreign currency exchange rates closely so as to minimise any potential material adverse effects from these exposure in a timely manner.

The following table demonstrates the sensitivity at the respective reporting dates to a reasonable possible change in the exchange rate of RMB and USD with all other variables held constant, of Group's loss before tax.

	Increase/ (decrease) in exchange rate %	**(Increase)/ decrease in loss before tax HK$'000**
31 December 2019		
If HK$ weakens against RMB	**5**	**12**
If HK$ strengthens against RMB	**(5)**	**(12)**
If HK$ weakens against USD	**0.5**	**657**
If HK$ strengthens against USD	**(0.5)**	**(657)**

	Increase/ (decrease) in exchange rate %	(Increase)/ decrease in loss before tax HK$'000
31 December 2018		
If HK$ weakens against RMB	5	430
If HK$ strengthens against RMB	(5)	(430)
If HK$ weakens against USD	0.5	(572)
If HK$ strengthens against USD	(0.5)	572

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk

(i) Trade and other receivables and deposits

Trade receivables

The Group applies the simplified approach to provide for expected credit losses for trade and other receivables and deposits prescribed by HKFRS 9, which permits the use of the lifetime expected loss provision for all trade receivables.

The loss allowance for trade receivables was determined as follows:

	Not past due	Past due less than 1 month	Past due 1 to 3 months	Past due 3 to 12 months	Past due over one year	Total
31 December 2019						
Expected loss rate	**0%–5%**	**0%–10%**	**0%–20%**	**0%–60%**	**80%–100%**	
Gross carrying amount (HK$'000)	**574**	**–**	**–**	**–**	**100,477**	**101,051**
Loss allowance (HK$'000)	**–**	**–**	**–**	**–**	**100,477**	**100,477**
31 December 2018						
Expected loss rate	0%–5%	0%–10%	0%–20%	0%–60%	80%–100%	
Gross carrying amount (HK$'000)	612,505	–	48	483	101,144	714,180
Loss allowance (HK$'000)	186	–	8	252	101,144	101,590

The above expected credit losses also incorporated forward looking information for both years ended 31 December 2019 and 31 December 2018.

The Group considers the probability of default upon initial recognition of asset and whether there has been a significant increase in credit risk on an ongoing basis throughout each reporting period. To assess whether there is a significant increase in credit risk, the Group compares the risk of a default occurring on the asset as at the reporting date with the risk of default as at the date of initial recognition. It considers available reasonable and supportive forwarding-looking information. Especially the following indicators are incorporated:

- internal credit rating;
- external credit rating;
- actual or expected significant adverse changes in business, financial or economic conditions that are expected to cause a significant change to the customer's ability to meet its obligations;
- actual or expected significant changes in the operating results of the debtor/customer;
- significant changes in the expected performance and behaviour of the customer, including changes in the payment status of customer in the Group and changes in the operating results of the customer.

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

(i) Trade and other receivables and deposits (continued)

Deposits and other receivables

The Group uses four categories for deposits and other receivables which reflect their credit risk and how the loss provision is determined for each of those categories. These internal credit risk ratings are aligned to external credit ratings.

A summary of the assumptions underpinning the Group's expected credit loss model is as follows:

Category	Group's definition of categories	Basis for recognition of expected credit loss provision
Performing	Customers have a low risk of default and a strong capacity to meet contractual cash flows	12 months expected losses. Where the expected lifetime of an asset is less than 12 months[1]. expected losses are measured at its expected lifetime
Underperforming	Receivables for which there is a significant increase in credit risk: as significant increase in credit risk is presumed if interest and/or principal repayments are 90 days past due	Lifetime expected losses
Non-performing	Interest and/or principal repayments are 365 days past due	Lifetime expected losses
Write-off	Interest and/or principal repayments are two years past due and there is no reasonable expectation of recovery	Asset is written off

The Group accounts for its credit risk by appropriately providing for expected credit losses on a timely basis. In calculating the expected credit loss rates, the Group considers historical loss rates for each category of deposits and other receivables and adjusts for forward-looking macroeconomic data.

Management assessed that certain deposits and other receivables at 31 December 2019 are regarded non-performing and impairment losses amounted to HK$4,474,000 (2018: HK$93,742,000) and HK$Nil (2018: HK$20,268,000) have been made for those deposits and other receivables respectively. Save as aforementioned, the Group's internal credit rating of the remaining deposits and other receivables were performing. The Group has assessed that the expected credit loss rate for the remaining deposits and other receivables is immaterial under 12 months expected losses method. Thus no loss allowance for those deposits and receivables was recognised.

The Group is exposed to credit risk and the Group's maximum exposure to credit risk in relation to financial assets is derived from its trade and bills receivables, other receivables, and cash deposits at banks.

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Credit risk (continued)

(i) ***Trade and other receivables and deposits (continued)***

Deposits and other receivables (continued)

The credit quality of the debtors is assessed based on their financial positions, past experience and other factors. The Group has policies in place to ensure credit terms are granted to reliable debtors. As at 31 December 2019, the Group had a concentration of credit risk given that the top 5 customers account for 92% (2018: 98%) of the Group's total year end trade receivables balance. However, the Group concludes that the credit risk in relation to these customers is not significant because they have no history of default in recent years. The Group's historical experience in collection of receivables falls within recorded allowance and the directors do not expect any major impairment on trade receivables, and receivables from other counterparties.

Receivables that aged less than 360 days substantially related to two customers that has a good trade record with the Group. Based on past experience, the directors are of the opinion that no provision for impairment is necessary in respect of these balances as there had not been a significant change quality and the balance are still considered fully recoverable.

(ii) ***Cash at bank and bank deposits***

The table below shows the details of bank deposit balances maintained at the end of the reporting period:

	Rating	**2019** **HK'$000**	2018 HK$'000
Cash at banks and bank deposits	A1-A3	**4,263**	43,570

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A" category is judged to be upper-medium grade and are subject to low credit risk under the rating regime of Moody's. Accordingly, management of the Group considers that the credit risk on the bank balances and bank deposits is limited.

Liquidity risk

In the management of the liquidity risk, the Group monitors and maintains a level of cash and cash equivalents deemed adequate by the management to finance the Group's operations and mitigate the effects of fluctuations in cash flows. The management monitors the utilisation of borrowings and other source of funding.

As referred to in note 2, management of the Company has made several measures and arrangements to enable the Group to have sufficient cash resources to operate as a going concern.

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

Liquidity tables

The following tables detail the Group's remaining contractual maturity for its non-derivative financial liabilities. The tables have been drawn up based on undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay. The tables include both interest and principal cash flows. To the extent that interest flows are based on floating rate, the undiscounted amount is calculated by interest rate curve.

In addition, the following tables detail the Group's expected maturity for its non-derivative financial assets. The tables have been drawn up based on undiscounted contractual cash flows of the financial assets including interest that will be earned on those assets. The inclusion of information on these non-derivative financial assets is necessary in order to understand the Group's liquidity risk management as the liquidity is managed on a net asset and liability basis.

The amount included below for variable interest rate instruments for the non-derivative financial assets and liabilities are subject to change if changes in variable interest rates differ to those estimates of interest rates determined at the end of the reporting period.

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2019 HK$'000
As at 31 December 2019				
Non-derivative assets				
Trade and bills receivables	574	–	574	574
Financial assets included in prepayments, deposits and other receivables	230,289	–	230,289	230,289
Cash and cash equivalents	4,369	–	4,369	4,369
	235,232	–	235,232	235,232

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2019 HK$'000
As at 31 December 2019				
Non-derivative financial liabilities				
Trade and bills payables	80,281	–	80,281	80,281
Financial liabilities included in other payables and accruals	89,611	18,778	108,389	108,389
Bank and other borrowings	406,718	40,129	446,847	429,609
Promissory notes payable	57,954	–	57,954	54,133
Obligations under finance leases	88	110	198	196
Lease liabilities	14,315	10,693	25,008	15,655
	648,967	69,710	718,677	688,263

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2018 HK$'000
As at 31 December 2018				
Non-derivative assets				
Trade and bills receivables	612,590	–	612,590	612,590
Financial assets included in prepayments, deposits and other receivables	854,936	–	854,936	854,936
Cash and cash equivalents	43,579	–	43,579	43,579
	1,511,105	–	1,511,105	1,511,105

44 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

Liquidity risk (continued)

	On demand or within one year HK$'000	2 to 5 years HK$'000	Total undiscounted cash flows HK$'000	Carrying amount at 31 December 2018 HK$'000
As at 31 December 2018				
Non-derivative financial liabilities				
Trade and bills payables	708,494	–	708,494	708,494
Financial liabilities included in other payables and accruals	50,227	–	50,227	50,227
Bank and other borrowings	441,073	–	441,073	414,412
Promissory notes payable	52,000	–	52,000	52,000
Obligations under finance leases	89	199	288	283
	1,251,883	199	1,252,082	1,225,416

Oil price risk

Since the Group makes reference to international oil prices to determine the product price in the oil segment, the Group is exposed to commodity price risk related to price volatility of oil. The Group actively monitors and manages the oil price risk.

Capital management

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

The Group monitors capital using a gearing ratio, which is net debt divided by the total equity plus net debt. Net debt includes bank and other borrowings, and promissory notes payable, less cash and cash equivalents. Total capital includes total equity attributable to owners of the Company and net debt. The gearing ratios as at the ends of reporting periods were as follows:

	2019 HK$'000	2018 HK$'000
Bank and other borrowings	**429,609**	414,412
Promissory notes payable	**54,133**	52,000
Less: Cash and bank balances	**(4,369)**	(43,579)
Net debt	**479,373**	422,833
Equity attributable to owners of the Company	**278,328**	657,342
Total equity and net debt	**757,701**	1,080,175
Gearing ratio	**63%**	39%

45 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

	2019 HK$'000	2018 HK$'000
NON-CURRENT ASSETS		
Investments in subsidiaries	–	–
Amounts due from subsidiaries	482,313	734,313
Total non-current assets	482,313	734,313
CURRENT ASSETS		
Prepayments, deposits and other receivables	1,014	1,210
Amounts due from subsidiaries	211,740	270,493
Cash and cash equivalents	570	241
Total current assets	213,324	271,944
CURRENT LIABILITIES		
Other payables and accruals	–	30,964
Bank and other borrowings	366,413	371,230
Promissory notes payable	54,133	52,000
Amounts due to subsidiaries	8,292	2,139
Total current liabilities	428,838	456,333
NET CURRENT LIABILITIES	(215,514)	(184,389)
NON-CURRENT LIABILITIES		
Other payables and accruals	18,778	–
Bank and other borrowings	35,230	–
Total non-current liabilities	(54,008)	–
NET ASSETS	212,791	549,924
EQUITY		
Share capital	57,036	57,036
Reserves (Note)	155,755	492,888
TOTAL EQUITY	212,791	549,924

The statement of financial position of the Company was approved and authorised for issue by the board of directors on 2 June 2020 and is signed on its behalf by:

Cai Jianjun	**Wong Kai Ling**
Director	*Director*

45 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: Movements of the Company's reserves are as follows:

	Share premium account HK$'000	Equity component of convertible bonds HK$'000	Capital reserve HK$'000	Contributed surplus HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2018	1,492,097	31,433	160,670	773,090	(1,527,401)	929,889
Loss for the year and total comprehensive income for the year	–	–	–	–	(437,001)	(437,001)
Transfer to accumulated losses upon redemption of convertible bonds	–	(31,433)	–	–	31,433	–
At 31 December 2018 and at 1 January 2019	**1,492,097**	**–**	**160,670**	**773,090**	**(1,932,969)**	**492,888**
Loss for the year and total comprehensive income for the year	**–**	**–**	**–**	**–**	**(337,133)**	**(337,133)**
At 31 December 2019	**1,492,097**	**–**	**160,670**	**773,090**	**(2,270,102)**	**155,755**

46 SUBSIDIARIES

Information about subsidiaries

Particulars of the principal subsidiaries are as follows:

Name	Place of incorporation and business	Issued/ paid up capital	Percentage of equity interest attributable to the Company Direct 2019	Indirect 2019	Direct 2018	Indirect 2018	Principal activities
Kingfund Corporation Limited@	Hong Kong	HK$1	**–**	**–**	–	–	Property investment
Super Energy Limited	Hong Kong	HK$1	**100%**	**–**	100%	–	Administrative function
Earning Power Inc.	British Virgin Islands ("BVI")	US$2	**–**	**100%**	–	100%	Investment holding

46 SUBSIDIARIES (continued)

Information about subsidiaries (continued)

Name	Place of incorporation and business	Issued/ paid up capital	Percentage of equity interest attributable to the Company Direct 2019	Indirect 2019	Direct 2018	Indirect 2018	Principal activities
City Joint Investments Limited	BVI	US$1	100%	–	100%	–	Investment holding
Metro Winner Trading Limited	Hong Kong	HK$1	–	100%	–	100%	Trading of commodities
Northern Lynx Exploration	USA	US$300,000	–	100%	–	100%	Investment holding
Mega Oil Inc.	USA	US$1,000	–	100%	–	100%	Extraction and sales of oil
Sheen Day Limited	Hong Kong	HK$1	–	100%	–	100%	Dormant
Dongguan City Hai Hui Logistics Company Limited^*	PRC	RMB30,500,000	–	100%	–	100%	Provision of logistics and warehousing services
Kai Sum International Limited	BVI	US$2	–	100%	–	100%	Investment holding
Wealth Delight International Holdings Limited	BVI	US$1	–	100%	–	100%	Investment holding
Qian'an Logistics^	PRC	RMB100,000,000	–	70%	–	70%	Trading of commodities and provision of logistics and warehousing services

The subsidiary is registered as a Sino-foreign investment enterprise under the PRC law.

^ The subsidiary is registered as a limited liability enterprise under the PRC law.

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

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

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

None of the subsidiaries had issued any debt securities at the end of the year.

46 SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non wholly-owned subsidiaries of the Company that have material non-controlling interests.

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2019	2018	**2019**	2018	**2019**	2018
		%	%	**HK$'000**	HK$'000	**HK$'000**	HK$'000
Qian'an Logistics	PRC	**30**	30	**4,176**	5,305	**84,491**	81,797

Summarised financial information in respect of the Company's subsidiaries at 31 December 2019 and 2018 that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

46 SUBSIDIARIES (continued)

Details of non-wholly owned subsidiaries that have material non-controlling interests (continued)

Qian'an Logistics

	In respect of the year ended 31 December	
	2019	2018
	HK$'000	HK$'000
Current assets	**330,711**	1,516,950
Non-current assets	**209,949**	214,165
Current liabilities	**(254,694)**	(1,454,253)
Non-current liabilities	**(4,367)**	(4,395)
Equity attributable to owners of the Company	**197,108**	190,670
Non-controlling interests	**84,491**	81,797
Revenue	**5,518,261**	11,529,626
Expenses	**(5,504,340)**	(11,511,942)
Profit for the year	**13,921**	17,684
Profit attributable to owners of the Company	**9,745**	12,379
Profit attributable to non-controlling interests	**4,176**	5,305
Profit for the year	**13,921**	17,684
Total comprehensive income attributable to owners of the Company	**6,411**	9,112
Total comprehensive income attributable to non-controlling interests	**2,694**	3,905
Total comprehensive income for the year	**9,105**	13,017
Net cash (outflow) inflow from operating activities	**(3,961)**	123,859
Net cash outflow from investing activities	**(15,200)**	(3,617)
Net cash outflow from financing activities	**(1,011)**	(92,135)
Net cash (outflow) inflow	**(20,172)**	28,107

47 EVENTS AFTER REPORTING PERIOD

In addition to those disclosed in the consolidated financial statements, the following events took place subsequent to the end of the reporting period:

(a) On 23 March 2020, the Company entered into a non-legally binding letter of intent with an independent third party with an intention to acquire 70% equity interest in Baotou Longyuan Earthwork and Stone Engineering Company Limited ("Baotou Longyuan") for a consideration to be determined by the relevant parties, Baotou Longyuan is principally engaged in mining and coal sales business in the PRC. No formal sale and purchase agreement has been entered into by the Group up to the date of approval of these consolidated financial statements.

(b) Due to the Coronavirus ("COVID-19") outbreak in early 2020, a series of precautionary and control measures have been and will continue to be implemented by the government in different countries. The Group's operations which are located in various countries might be affected. The Group will closely pay attention to this pandemic issues and the related operational and financial impacts of the Group. As at the date of this announcement, the Group is still in the process of assessing the impacts from the COVID-19 outbreak.

Supplemental Information on Oil Exploring and Producing Activities (Unaudited)

31 December 2019

On 18 December 2014, the Company completed to acquire a group engaged in exploration and production of oil as well as provision of well services in the States of Illinois and Indiana in the USA at a consideration of HK$295,000,000. The Group's estimated net oil reserves for the year ended 31 December 2019 and 2018 are shown in the following table.

Proved oil reserves are those quantities of oil, which by analysis of geoscience and engineering data, can be estimated with reasonable certainty to be economically producible – from a given date forward, from known reservoirs, and under existing economic conditions, operating methods, and government regulation – prior to the time at which contracts providing the right to operate expire, unless evidence indicates that renewal is reasonably certain, regardless of whether deterministic or probabilistic methods are used for the estimation. The project to extract the hydrocarbons must have commenced or the operator must be reasonably certain that it will commence the project with a reasonable time.

Probable reserves are those additional reserves that are less certain to be recovered than proved reserves but which, together with proved reserves, are as likely as not to be recovered. Net reserves exclude royalties and interests owned by others.

Reserve summary

Location	**2019 Light and Medium Oil MSTB**	2018 Light and Medium Oil MSTB
In the State of Illinois		
Proved	**79**	687
Probable	**527**	1,080
	606	1,767
In the State of Indiana		
Prove	**49**	76
Probable	**445**	439
	494	515
Total proved and probable	**1,100**	2,282

MSTB represents thousand of stock tank barrels of oil.

Five Year Financial Summary

A summary of the results and of the assets, liabilities and non-controlling interests of the Group for the last five financial years, as extracted from the published audited financial statements and restated/reclassified as appropriate, is set out below.

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
RESULTS					
Continuing operations					
Revenue	5,522,721	11,536,943	3,090,306	2,561,245	1,569,903
Cost of sales and services	(5,488,620)	(11,469,113)	(2,899,156)	(2,504,340)	(1,495,216)
Gross profit	34,101	67,830	191,150	56,905	74,687
Other income and gains	21,406	1,831	19,144	34,865	29,620
Reversal of impairment of interests in an associate	–	15,910	–	–	–
Selling and distribution expenses	(131)	(218)	(29)	(122)	(118,887)
Administrative expenses	(58,411)	(57,942)	(48,923)	(40,218)	(85,818)
Other operating expenses	–	–	–	–	(4,185)
Loss on disposal of oil properties	(56,945)	–	–	–	–
Loss on deemed disposal/disposal of an associate	(7,891)	(8,757)	–	–	–
Impairment of investment in an associate and amount due from an associate	(242,000)	(190,000)	–	–	(354,488)
Impairment of goodwill	(14,250)	(7,840)	(85,908)	(29,238)	–
Impairment of oil properties	(18,000)	(34,332)	(38,934)	(13,614)	(72,145)
Impairment of trade receivables	–	(92,955)	(235)	(9,146)	(351,211)
Impairment of prepayments, deposits and other receivables	(4,474)	(114,010)	–	(2,876)	(39,825)
Share of profit (losses) of associates	4,118	(2,858)	(1,909)	(1,452)	(1,195)
Finance costs	(40,747)	(49,172)	(64,107)	(70,649)	(191,572)
LOSS BEFORE TAX FROM CONTINUING OPERATIONS	(383,224)	(472,513)	(29,751)	(75,545)	(1,115,019)
Income tax credit (expense)	4,412	24,460	(44,516)	(9,475)	(222,844)
LOSS FOR THE YEAR FROM CONTINUING OPERATIONS	(378,812)	(448,053)	(74,267)	(85,020)	(1,337,863)
Discontinued operations					
Profit for the period from discontinued operations	–	–	753,956	(617,755)	–
PROFIT (LOSS) FOR THE YEAR	(378,812)	(448,053)	679,689	(702,775)	(1,337,863)

Five Year Financial Summary

	Year ended 31 December				
	2019	2018	2017	2016	2015
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
PROFIT/(LOSS) FOR THE YEAR	**(378,812)**	(448,053)	679,689	(702,775)	(1,337,863)
OTHER COMPREHENSIVE INCOME					
Items that may be reclassified subsequently to profit or loss:					
Exchange differences on translation of foreign operations	**2,532**	(52,013)	(24,055)	21,533	14,970
Reclassification adjustments relating to foreign operations disposed of during the year	**–**	–	(79,162)	–	–
OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX	**2,532**	(52,013)	(103,217)	21,533	14,970
TOTAL COMPREHENSIVE INCOME FOR THE YEAR	**(376,280)**	(500,066)	576,472	(681,242)	(1,322,893)
Loss for the year from continuing operations attributable to:					
Owners of the Company	**(382,988)**	(453,358)	(91,336)	(95,352)	–
Non-controlling interests	**4,176**	5,305	17,069	10,332	–
	(378,812)	(448,053)	(74,267)	(85,020)	–
Profit/(loss) attributable to:					
Owners of the Company	**(382,988)**	(453,358)	670,520	(679,007)	(1,291,990)
Non-controlling interests	**4,176**	5,305	9,169	(23,768)	(45,873)
	(378,812)	(448,053)	679,689	(702,775)	(1,337,863)
Total comprehensive income attributable to:					
Owners of the Company	**(378,974)**	(500,977)	565,290	(658,076)	(1,277,851)
Non-controlling interests	**2,694**	911	11,182	(23,166)	(45,042)
	(376,280)	(500,066)	576,472	(681,242)	(1,322,893)
ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS					
TOTAL ASSETS	**1,146,676**	2,772,338	2,725,045	5,091,549	4,049,987
TOTAL LIABILITIES	**(783,857)**	(2,033,199)	(1,486,008)	(4,886,668)	(3,748,483)
NON-CONTROLLING INTERESTS	**(84,491)**	(81,797)	(80,886)	(1,407)	31,213
	278,328	657,342	1,158,151	203,474	332,717