# 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


# 2020 ANNUAL REPORT 年報

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# Corporate Information

## EXECUTIVE DIRECTORS
Wong Kai Ling
Yang Yi
Meng Fanpeng

## NON-EXECUTIVE DIRECTOR
Qin Bo

## INDEPENDENT NON-EXECUTIVE DIRECTORS
Choy So Yuk, *BBS, JP*
Wu Zhao
Zou Mingwu
Wong Chun Hung

## AUDIT COMMITTEE
Wong Chun Hung *(Chairman)*
Choy So Yuk, *BBS, JP*
Wu Zhao

## REMUNERATION COMMITTEE
Choy So Yuk, *BBS, JP (Chairman)*
Wu Zhao
Wong Chun Hung

## NOMINATION COMMITTEE
Choy So Yuk, *BBS, JP (Chairman)*
Wong Kai Ling
Wu Zhao
Wong Chun Hung

## EXECUTIVE COMMITTEE
Wong Kai Ling
Yang Yi
Meng Fanpeng

## AUTHORISED REPRESENTATIVES
Wong Kai Ling
Chiu Yuk Ching

## COMPANY SECRETARY
Chiu Yuk Ching

## AUDITORS
CCTH CPA Limited

## REGISTERED OFFICE
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## BRANCH SHARE REGISTRAR AND TRANSFER OFFICE
Tricor Tengis Limited
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Hong Kong

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

# Statement from the Board

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 2020 (the "Year").

2020 is likely to be remembered as the most difficult year for the Group. The market situation under COVID-19 has necessitated the Company to take offensive moves across all business segments during the Year in order to mitigate the negative financial implications. Since the second half of the year, the business units have gradually resumed operations as the effects of the pandemic started to peter out. In this regard, the Group benefits from the solid foundation built in the previous years by the management's relentless effort to streamline the operations and improve profitability. Our integrated trading, warehouse and logistics business model manifests its value in this turbulent time and will continue to be the workhorse of our business development.

## OUTLOOK

In the economic sphere, the ongoing coronavirus pandemic is the most catastrophic event after the Second World War. According to IMF, world gross domestic product shrank 4.4% in the year, after which the aggregate global economy is expected to recover to the level before the pandemic in 2021, partially thanks to the impending widespread vaccination. However, the recovery will likely to be uneven and constrained. On the industry level, possible continued weakness in customer service industries might act as a drag on GDP although part of the demands and resources will shift to other healthier and expanding sectors. On the country level, China has led major economies in the recovery race with a narrowly positive full-year growth for 2020 — a far cry from the advanced countries whose growths were in the red. As a result of these uneven developments, the global outlook for medium-term growth is likely to be subdued.

With the external environment becoming less supportive, China has put forth the concept of "dual circulation" in the 14th Five-Year Plan. The aim is to rebalance the Chinese economy in three dimensions: from external demand to domestic demand, from fixed asset investment to consumption and the reduction of income inequality. Sustainable economic growth entails further deregulation for removal of internal market barriers, state-owned enterprise reform under competitive neutrality and, most importantly, domestic innovation for technological progress. Whether or not there is a deliberate slowdown in technology diffusion from overseas, China will invest significantly to boost domestic innovation and industry upgrade given the shrinking room for catch-up in its ascent to the global technology frontier.

The added emphasis on domestic demand does not mean that China will turn inward looking. On the contrary, a strong home market could serve as the locomotive for new and greater-scale market openness, as evidenced by a recent slate of trade initiatives including the launch of the Regional Comprehensive Economic Partnership, the signing of Comprehensive Agreement on Investment with Europe, and the ongoing free-trade talks with Japan and South Korea. China's continued openness lays the cornerstone for longer-run economic growth for all trading partners through connectivity and trade. As the guiding principle, the Belt and Road Initiative (BRI) will not only build tighter economic ties within the region but also support China's move up in the value chain towards high technology and services sectors.

# Statement from the Board

## BUSINESS STRATEGIES

The business opportunities for the Group lie in the BRI focus on connectivity – facilitation of trade and investment, and strategic reinforcement of China's energy and resource security. Over the foreseeable future, China will strengthen international co-operation on energy and resources as well as the related production chains, and will also increase local processing and conversion. As such, the aforementioned economic and trade themes undoubtedly favours the Group, which has already accumulated ample expertise and valuable infrastructure from practicing our integrated trading, warehouse and logistics business model.

In devising our strategy, the Group aims to sharpen our organizational agility in the post-pandemic era in order to both capture market opportunities and ride out volatile market conditions. In particular for business growth and expansion beyond the current business portfolio, the Group will set our eyes on asset-light projects which can utilize our trading and logistics platform built over the years. Our experienced personnel based in Hong Kong and other parts of Asia are well positioned to connect with and serve commodity players with professionalism and dexterity. Therefore, the Group is poised to take advantage of the opportunities arising from regional economic integration and China's vast appetite for high-quality resources and green energy.

The move toward a healthy mix of our business portfolio will generate desirable synergies with our current asset base and area of competence. This will open up the second stage of our corporate development in the course of transformation into a commodity, energy and logistics enterprise, after the successful initial buildout of infrastructure at BRI's strategic locations. In the medium and long run, the pursuit of asset-light growth can boost the Group's return on asset in the interest of shareholders.

The Group is confident to achieve the required level of organizational flexibility and operational scalability since our organization and corporate culture have been modeled on a startup firm under the leadership of our senior management. With the purpose of staying agile, our corporate structure and processes are designed to be both stable (reliable and efficient) and dynamic (fast and adaptive). To take an analogy, the Group aims to function like a smartphone which has hardware and operating system as a stable foundation and, at the same time, a dynamic application layer for new apps to be added over time for new capabilities. It is envisioned that app-like, asset-light business units will be timely formed or dissolved as the fast-changing market situation warrants. This flexible formation can ready the Group to diversify our revenue stream and business portfolio and to better manage operating costs and risks amid geopolitical tensions and market fluctuations.

In conclusion, China's pursuit of high-quality and steady growth will boost the well-being of the people and the economic benefits will spill over to the rest of the region. The Group will make the most of the fertile business environment created by the dual circulation concept and the supply-side structural reform. Moreover, we will also gear our organization toward rapid growth and value creation for our customers and investors alike. When market opportunities open up, the Group will evaluate project and investment proposals by our longstanding prudent and pragmatic approach.

# Statement from the Board

## APPRECIATION

Finally, I would like to express my sincere appreciation to my colleagues who have worked endlessly during this difficult period to soften the blow of the pandemic. I would also like to express my gratitude to our shareholders, investors and partners for their support to the Group. I look forward to a swift rebound and improvement in business and profits.

ON BEHALF OF THE BOARD

**Meng Fanping**
*Executive Director*

Hong Kong, 30 March 2021

# Management Discussion and Analysis

## FINANCIAL RESULTS

For the year ended 31 December 2020, the Group recorded revenue from operations of approximately HK$34,609,000 (2019: approximately HK$5,522,721,000), representing a decrease of 99% from prior year. The Group's gross profit of the operations shrink to approximately HK$1,697,000 for the year ended 31 December 2020 from approximately HK$34,101,000 recorded in 2019, with the gross profit margin at 4.9% in this year. The Company recorded a loss attributable to the owners of the Company from the operations for the year ended 31 December 2020 to approximately HK$376,908,000 from that of about HK$382,988,000 recorded in the preceding year.

## BUSINESS REVIEW

The year 2020 was a roller coaster ride for the global economy and to some extent the capital markets amid the COVID-19 pandemic. The only bright spot in the dire environment, China has tackled the disease with collective national resolve and shown remarkable resilience. After a sharp GDP dip in the first quarter, the Chinese economy has soon returned to the expansion path since the second quarter, ending the year with a 2.3% annual growth. However, although the swift recovery in China surprised on the upside, the global economy was dampened by continual outbreaks in other countries throughout the year.

In order to cope with the fallout of the coronavirus crisis, the Group decided to scale down our operations across all the business segments for enhanced financial and risk management. Our trading and logistics segment went through the first half of 2020 with near inactivity, and then its business gradually picked up in the second half. The Group has since applied a prudent approach to business selection with the target of optimizing warehouse utilization and minimizing business risk, which sets a strategic course of controlled recovery for our trading activities. Our core subsidiary Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), the primary source of revenue of the Group's operation in recent years, has made an initial step in recovering its trading volume, however, the result was not remarkable. Revenue from trading segment amounted to approximately HK$29,129,000 for the full year 2020, decreasing by HK$5,488,095,000 from HK$5,519,831,000 for the full year 2019. Moreover, further impairment in goodwill and the investments in associates was caused by reduced asset valuation of the trading and logistics segment. These impairments are due to the predicted deterioration in future economy for a period of time in light of the serious impact caused by the COVID-19 pandemic, leading to a prudent approach on future operations. Also, additional investments will require for the associates located in Inner Mongolia to initiate and expand their operations. In view of current business environment and the recoverability of economy from the COVID-19 pandemic, it is unpredictable to determine the future sources of funds. Combining the considerations above, the values of the investments in those associates were fully impaired to reflect these uncertainties.

The oil market was hit in April 2020 by a perfect storm created by a price war between OPEC and Russia and the realization of the pandemic. In an unprecedented turbulence, the oil price yo-yoed down to the negative territory and then back up to the US$40 level for much of the second half of the year. The weakness in the demand has persisted due to the constraints on the transportation sector in the form of reduced air flights and car driving. Consequently, the oil segment of the Group undertook suspension of oil production between April and June to cushion the financial impact of the low oil price. In Canada, RockEast Energy Corporation ("RockEast") recorded a loss of approximately HK$7,954,000 for the full year 2020 of which the Group owns about 29.95% equity interest. Besides, our US oil production unit with relatively higher operational costs resulted with an operating loss for years. Recently, the oil price has moved above US$60/bbl, partly due to the optimism from vaccination rollouts and partly due to the continuing production cuts by OPEC+. The Group will keep closely monitoring the market situation to plan capital investment accordingly for better profitability of the oil assets.

The debtor's turnover day of the Group in 2020 was 3 days compared with 20 days in 2019. 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 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.

During the year, the Company placed 285,714,285 shares to an independent third party, resulted with a net proceed of approximately HK$7,700,000. It aims to improve the financial position of the Company and broadening the shareholder and capital base of the Company.

The Group completed the acquisition of Useful Light Group Limited ("Useful Light") in August 2015 (the "Acquisition"). After the Acquisition, the Group indirectly held approximately 30% interest in RockEast Energy Corp. ("RockEast"). Pursuant to the 2015 Shareholders Agreement entered into by the shareholders of RockEast in July 2015, the Drag-along Right was provided therein. Subsequent to the 2015 Shareholders Agreement, RockEast and various then RockEast shareholder (excluding Useful Light) entered into a Shareholders' Agreement in 2016 to supersede the 2015 Shareholders Agreement. The Company was bound by the Drag-along Right under the 2016 Shareholders Agreement. The Company did not disclose the Drag-along Right during the material times of the Acquisition. At the material time of the Acquisition, given that the 2015 Shareholders Agreement has been entered into before the Acquisition, the Company was not aware of the Drag-along Right which was subject to the Listing Rules compliance, and failed to comply with the relevant rules in a timely manner. Useful Light did not sign the 2016 Shareholders Agreement but it is bound by the Drag-along Right contemplated under the 2016 Shareholders Agreement. The Company consulted its legal advisers about the impact of the exercise of the Drag-along Right on the Company under the Listing Rules and was given to know that the Drag-along Right should be regarded as a grant of option and was subject to relevant Listing Rules. The Company decided to proceed with the remedial action in order to rectify the non-compliance arising from the Drag-along Right. Please refer to the announcements of the Company dated 4 March, 2021 and 23 March 2021 for details.

## OUTLOOK

Thanks to the advancement of vaccine development and production, global economy recovery is expected to gather pace in the second half of 2021 after vaccination reaches a critical level within the general world population. The recovery will also be supported by the expected extension of expansionary fiscal policies around the world. However, in the medium term economies might experience "scarring" from the depth of the recession and the ensuing structural changes, including the repercussions of firm bankruptcies, adjustment costs of surviving firms from upgrading workplace safety, and costly resource reallocation away from contact-intensive sectors. In comparison, prospects for China are stronger than for other countries due to strong policy support and resilient exports. The optimism over China's economic recovery is also reflected in the regained consumer confidence and spending at levels seen before the pandemic. All these key drivers will power the economic rebound and will benefit our business performance.

The Group is of the view that the post-COVID-19 environment will be simultaneously exciting and volatile. Navigating our business through this environment is a balancing act: beware geopolitical shifts while strengthening ties with foreign countries and companies; and develop our unique strengths while diving deeper into the digital ecosystem that buttresses the Chinese economy.

# Management Discussion and Analysis

In the near term, the Group will continue to work closely with our existing trading and logistics customers on business resumption and growth. Such business decisions will be supported by relevant risk assessment in the process. For longer term business development, the Group will seek to develop in the asset light direction by an organic combination of the strength of our logistics network and our expertise in commodity trading. This strategic directive is guided by the national strategy of "dual circulation" which demands a stable and efficient supply system for raw materials. In diversify our revenue stream and business portfolio, the Group will exercise utmost prudence in appraising investment proposals to safeguard shareholders' value.

In order to position ourselves for the opportunities galore, our organization is being optimized for agility, profitability and cost. To get traction on our international strategy, the Group is set to fine tune our hierarchy and organizational structure. While functions — that is, technical, sales, supply-chain, and customer-service — are the primary designated departments for employees, the Group will rely more on small-scale business units with P&L accountability, appropriate decision-making authority, and direct reporting responsibility to the senior management. This "secondary" product-line organization holds the enterprise view for overall profitability. In other words, this agile layer of organization synthesizes product strategy, allocates capital expenditure, and drives collaboration across functions and geographies.

Taking advantage of a flexible workforce, the Group can better tap into the market potentials and embrace new technologies. In our quest of operational excellence based on staff empowerment and technology adoption, we aim to enhance our value proposition with a higher visibility of the supply chain from end to end. The Group will harness the many innovations being spearheaded in China in the logistics industry to improve efficiency and generate creative solutions for our clients.

## 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.

## CAPITAL STRUCTURE, LIQUIDITY, FINANCIAL RESOURCES AND DEBT MATURITY PROFILE

As at 31 December 2020, the Group had total interest bearing bank and other borrowings in the amount of approximately HK$443,665,000 (31 December 2019: HK$399,196,000), representing an decrease of HK$44,469,000. The Group's interest bearing bank and other borrowings are repayable within one year.

The Group's total interest bearing bank and other borrowings are all denominated in HK$ of which approximately HK$35,230,000 is charged at floating interest rates, and HK$408,435,000 is charge at fixed rate. The Group's cash and bank balances of approximately HK$3,781,000 were 25.5% denominated in RMB, 4.9% in USD and 69.6% in HK$.

As at 31 December 2019 and continued in 2020, the other borrowing (previously regarded as the holders of 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$408,435,000 (2019: HK$366,413,000). It is denominated in HK$ and bear interest at fixed interest rate of 11% per annum.

# Management Discussion and Analysis

## 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 2020, the total number of employees of the Group was approximately 33 (31 December 2019: 40). 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, and/or to enable the Group to recruit high-calibre employees the Group has adopted a share option scheme in June 2017. As at 31 December 2020 and 31 December 2019, there were no outstanding share options granted under the new scheme.

## CHARGE OF GROUP ASSETS

As at 31 December 2020, no property (31 December 2019: Nil) is pledged as securities for the Group's banking facilities.

## GEARING RATIO

As at 31 December 2020, the gearing ratio of the Group (being the ratio of net debt divided by total capital plus net debt) was approximately 119.3% (31 December 2019: approximately 63.3%). 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

Pursuant to the civil complaint dated 29 November 2019 (the "Haitong Civil Complaint") filed by Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (the "Plaintiff") as plaintiff with the Shanghai Financial Court, the Plaintiff claimed against Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), an indirect non wholly-owned subsidiary of the Company for (i) repayment of an aggregate amount of RMB197,754,190.70; and (ii) all the costs in relation to the Haitong Civil Complaint. The Haitong Civil Complaint had been accepted by the Shanghai Financial Court. The Haitong Civil Complaint was arisen from the dispute under a domestic factoring agreement dated 26 September 2018 (the "Factoring Agreement") entered into among the Plaintiff, 天津物產進出口貿易有限公司 (transliterated in English as Tewoo Import and Export Trade Company Limited) ("Tewoo") and Qian'an Logistics. Pursuant to the Factoring Agreement, the Plaintiff agreed to provide financing to Tewoo which, in return, agreed to assign all its rights under the account receivables in the aggregate amount of RMB223,463,688.00 (the "Account Receivables") payable by Qian'an Logistics to the Plaintiff in connection with five copper cathode contracts supplied by Tewoo to Qian'an. According to the Factoring Agreement, the Plaintiff appointed Tewoo to be its collection and receiving agent for the receipt of the Account Receivables payable by Qian'an Logistics. The management of Qian'an Logistics represented that Qian'an Logistics has fully settled the Account Receivables with Tewoo in connection with the five copper cathode contracts. In the premises, Qian'an Logistics has instructed its PRC legal adviser to contest the claim and to handle all other legal issues in connection with the Haitong Civil Complaint. As judgement has not rendered, the effects of the Haitong Civil Complaint on the Company could not be assessed at this moment.

Pursuant to the civil complaint dated 22 November 2019 (the "Haotai Civil Complaint"), filed by 天津浩泰恒遠國際貿易有限公司 (transliterated in English as Tianjin Haotai Hengyuan International Trading Company Limited) (the "Haotai") as plaintiff with Tianjin No. 1 Intermediate People's Court, Haotai claimed against Qian'an Logistics for (i) repaying the aggregate amount of RMB68,370,454.42, being the purchase price for goods supplied by the Haotai to Qian'an Logistics; and (ii) all the costs in relation to the Haotai Civil Complaint. The amount of RMB68,370,454.42 claimed by Haotai is included in accounts payables and other payables as at 30 June 2020. On 4 January 2021, the Group received a judgment from Tianjin No. 1 Intermediate People's Court pursuant to which the court approved the withdrawal application filed by Haotai in relation to its civil complaint against Qian'an Logistics, i.e. the Haotai Civil Complaint. The legal costs of the court should be borne by Haotai.

## USE OF NET PROCEEDS FROM THE PLACING

In December 2020, the Company completed placing of 285,714,285 new shares of the Company and raised net proceeds of approximately HK$7,700,000. The proceeds are used for the general working capital of the Group.

## DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 December 2020 (2019: 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 2020.

# Biography of Directors and Senior Management

## EXECUTIVE DIRECTORS

**Ms. Wong Kai Ling**, aged 28, 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 China Huarong International Holdings Limited. ("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 transferred 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 China Huarong Asset Management Co., Ltd ("Huarong Asset Management"), whose shares are listed on the Main Board of the Stock Exchange. China Huarong Investment Management Limited ("Huarong Investment"), a subsidiary of Huarong Overseas, is a substantial shareholder of the Company.

**Ms. Yang Yi**, aged 31, was appointed as an executive director and a member of the executive committee on 22 June 2020. Ms. Yang obtained a master degree in public health from the University of Hong Kong. Ms. Yang served as an associate director of investment banking division of Huarong International, where she was responsible for project analysis, investment and management. She has participated in various types of investment and follow-up management in projects covering real estate, logistics, medical equipment, clean energy and coal. She has extensive investment experience in project financing and merger and acquisition. By the end of 2019, Ms. Yang was transferred to Huarong Overseas from Huarong International. She is the current 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.

**Mr. Meng Fanpeng**, aged 40, was appointed as an executive Director and a member of the executive committee of the Company on 22 June 2020. Mr. Meng holds a bachelor of laws from University of Lancaster and master of laws from University College London, and obtained his doctor of philosophy (PhD) from the Chinese University of Hong Kong. He is admitted to the New York State Bar. Mr. Meng joined the Company in 2016 and served as general manager of the Investment and Finance Department and director of a subsidiary of the Company. Prior to joining the Company, Mr. Meng was in charge of the investment arm of a then large commodities trading & investment entity in Hong Kong. Mr. Meng has extensive experience in project investment and mergers & acquisitions in sectors including logistics, mining, energy and real estate.

# Biography of Directors and Senior Management

## NON-EXECUTIVE DIRECTOR

**Mr. Qin Bo**, aged 33, 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 70, was appointed as an independent non-executive Director on 5 June 2009 and is also a member of the audit committee, the chairman of each of 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 is 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.

**Mr. Wu Zhao**, aged 43, was appointed as an independent non-executive Director on 16 June 2016. He is also a member of each 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. Zou Mingwu**, aged 66, 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

**Mr. Wong Chun Hung** ("Mr. Wong"), aged 47, who was appointed as an independent non-executive Director, the chairman of the audit committee, a member of each of the remuneration committee and the nomination committee of the Company with effect from 22 January 2021. Mr. Wong is a member of the Hong Kong Institute of Certified Public Accountants and has over 20 years' experience in accounting, auditing and consulting. Mr. Wong is a director of B&C Finance and Corporate Advisory Limited and has been serving as an independent non-executive director of Fullsun International Holdings Group Co., Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 627), since December 2020 and an independent non-executive director of Pak Wing Group (Holdings) Limited, the shares of which are listed on GEM of the Stock Exchange (stock code: 8316), since 20 January 2021.

Mr. Wong was an executive director of China Environmental Energy Investment Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 986), from April 2018 to May 2018. Mr. Wong was an independent non-executive director of (i) Landing International Development Limited, the shares of which are listed on the Main Board of the Stock Exchange (stock code: 582), from September 2017 to June 2019; (ii) Asia Pacific Silk Road Investment Company Limited (formerly known as Pacific Plywood Holdings Limited), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 767) from April 2010 to August 2019; and (iii) Link-Asia International MedTech Group Limited (formerly known as Link-Asia International Co. Ltd., also known as China Healthcare Enterprise Group Limited and also known as Telefield International (Holdings) Limited), the shares of which are listed on the Main Board of the Stock Exchange (stock code: 1143), from November 2015 to August 2019.

Mr. Wong graduated from Hong Kong Baptist University in Hong Kong with a bachelor of business administration degree in accounting in November 1995.

## SENIOR MANAGEMENT

**Mr. Kwok Kam Tim**, aged 44, 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 (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 (stock code: 8047) from June 2014 to July 2014, both companies were listed on GEM of the Stock Exchange.

# Corporate Governance Report

*For the year ended 31 December 2020*

The board of directors of the Company (the "Board") is pleased to present the corporate governance report for the year ended 31 December 2020.

## A. CORPORATE GOVERNANCE PRACTICES

The Board is committed to raising the standard of corporate governance by emphasizing transparency, independence, accountability, responsibility and fairness. The Board believes that good corporate governance helps the Group safeguard the interests of its shareholders and improve its performance. The Company exercises corporate governance through the Board and various committees.

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 2020, except for the following deviations:

### Code provision A.1.3

Under code provision A.1.3, notice of at least 14 days should be given of a regular board meeting to give all directors an opportunity to attend. During the year under review, not all notices of regular Board meetings were issued to the Directors at least 14 days prior to the relevant Board meetings due to the practical reasons. Nevertheless, most of the Directors had attended the meetings. The Company will use its best endeavor to give 14 days' advanced notifications of Board meeting to the extent practicable.

### Code provisions A.2

Code provision A.2 stipulates that the role of chairman and chief executive should be separate and should not be performed by the same individual. The chairman and the chief executive of the Company was performed by two separate individuals, with Mr. Cai Jianjun ("Mr. Cai") acted as the chairman and Mr. Fang Gang ("Mr. Fang") acted as the chief executive. Mr. Cai resigned as executive Director and chairman of the Board on 5 June 2020, and Mr. Fang resigned as the chief executive on 15 July 2020. Following the resignation of Mr. Cai, the Company does not have the chairman of the Board and the chairman has not held meeting with all independent non-executive Directors/non-executive Director without the executive Director present. Hence the Company did not comply with code provision A.2. The Company will identify appropriate persons to fill in the vacancies of chairman and chief executive.

### 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 (who resigned as an independent non-executive Director on 22 January 2021) 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. The Company will arrange to appoint Ms. Choy with a specific term to comply with the CG Code.

### Code Provisions A.6.7 and E.1.2

Under code provision A.6.7, independent non-executive directors and other non-executive directors should attend general meetings and develop a balanced understanding of the views of the shareholders. In addition, code provision E.1.2 provides that the chairman of the board should attend the annual general meeting. The independent non-executive Directors ("INEDs"), Mr. Leung Yuen Wing, Mr. Wu Zhao, Mr. Zhu Dengkai, Mr. Liu Wei and Mr. Zou Mingwu had not attended the annual general meeting held on 10 July 2020 ("2020 AGM") as they were not in Hong Kong, and due to the COVID-19 pandemic, they did not come/return to Hong Kong, or had other commitments which must be attended to. Besides, as no chairman was appointed after the resignation of Mr. Cai on 5 June 2020, the 2020 AGM did not have chairman to attend. However, the executive Director, Ms. Yang Yi and Mr. Meng Fanpeng, the non-executive Director, Mr. Qin Bo and an INED and also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee, Ms. Choy So Yuk, had attended the 2020 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. 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 confirmed that they have complied with the required standards set out in the Model Code throughout the year ended 31 December 2020.

## C. BOARD OF DIRECTORS

During the year, there were changes to the composition of the Board. On 13 May 2020, Mr. Wang Xiusong resigned as an executive Director and Ms. Wong Kai Ling was appointed as an executive Director. On 2 June 2020, Mr. Zhou Hao resigned as a non-executive Director and Mr. Qin Bo was appointed as a non-executive Director. On 5 June 2020, Mr. Cai resigned as an executive Director and chairman of the Board. On 22 June 2020, Ms. Zhang Rui resigned as an executive Director, and Ms. Yang Yi and Mr. Meng Fanpeng were appointed as executive Directors. Mr. Zhu Dengkai retired as an INED at the 2020 AGM held on 10 July 2020. Subsequent to the year under review, on 22 January 2021, Mr. Leung Yuen Wing and Mr. Liu Wei resigned as INEDs and Mr. Wong Chun Hung was appointed an INED.

The Board currently comprises three executive Directors, namely Ms. Wong Kai Ling, Ms. Yang Yi and Mr. Meng Fanpeng; one non-executive Director, namely Mr. Qin Bo, and four INEDs, namely Ms. Choy So Yuk, Mr. Wu Zhao, Mr. Zou Mingwu and Mr. Wong Chun Hung.

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

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

During the year, 19 Board meetings and the 2020 AGM were held. The attendance records of individual Director are as follows:

| **Directors** | **Board Meetings**<br>No. of meetings attended/held | **2020 AGM**<br>No. of meeting attended/held |
|---|---|---|
| *Executive Directors* | | |
| Ms. Wong Kai Ling (appointed on 13 May 2020) | 15/15 | 0/1 |
| Ms. Yang Yi (appointed on 22 June 2020) | 10/10 | 1/1 |
| Mr. Meng Fanpeng (appointed on 22 June 2020) | 10/10 | 1/1 |
| Mr. Cai Jianjun (resigned on 5 June 2020) | 6/8 | 0/0 |
| Mr. Wang Xiusong (resigned on 13 May 2020) | 1/4 | 0/0 |
| Ms. Zhang Rui (resigned on 22 June 2020) | 0/9 | 0/0 |
| *Non-executive Directors* | | |
| Mr. Qin Bo (appointed on 2 June 2020) | 12/12 | 1/1 |
| Mr. Zhao Hao (resigned on 2 June 2020) | 4/7 | 0/0 |
| *Independent Non-executive Directors* | | |
| Ms. Choy So Yuk | 18/19 | 1/1 |
| Mr. Leung Yuen Wing (resigned on 22 January 2021) | 18/19 | 0/1 |
| Mr. Wu Zhao | 19/19 | 0/1 |
| Mr. Liu Wei (resigned on 22 January 2021) | 15/19 | 0/1 |
| Mr. Zou Mingwu | 15/19 | 0/1 |
| Mr. Zhu Dengkai (retired at the 2020 AGM) | 8/10 | 0/1 |

Throughout the year ended 31 December 2020, the Company met at all times the requirements of the Listing Rules to have at least three INEDs representing at least one-third of the Board and with at least one INED possessing appropriate accounting and financial management expertise and professional qualifications.

The Company has received from its INEDs annual confirmation of independence in accordance with Rule 3.13 of the Listing Rules. Each of the INEDs (except Ms. Choy So Yuk ("Ms. Choy")) has served the Company for not more than 9 years. The Board has assessed their independence and concluded that all the INEDs are independent. Ms. Choy has served as an INED for more than 9 years. The Company has received from Ms. Choy a confirmation of independence pursuant to Rule 3.13 of the Listing Rules, Ms. Choy continues to demonstrate the attributes of an independent non-executive director and there is no evidence that her tenure has had any impact on her independence. Ms. Choy is not involved in the daily management of the Group nor in any relationships or circumstances which would interfere with the exercise of her independent judgment. The Nomination Committee of the Company has assessed and is satisfied of Ms. Choy's independence. In view of Ms. Choy holds a wide variety of political, social and academic positions, which the Board believes that she is capable to provide constructive contributions as well as wide spectrum of independent opinion to the Company. Hence, the Board is of the opinion that Ms. Choy has the required charter, integrity, experience and knowledge to continue fulfilling the role of an INED effectively and is of the opinion that Ms. Choy remains independent and believes that her experience continues to generate significant contribution to the Company and the Shareholders as a whole. The Shareholders of the Company has approved the re-election of Ms. Choy So Yuk as an INED at the 2019 AGM and is subject to rotation at the annual general meeting of the Company in accordance with the Bye-laws.

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, an induction had been given to the newly appointed Directors, namely Ms. Wong Kai Ling, Ms. Yang Yi, Mr. Meng Fanpeng and Mr. Qin Bo.

During the year under review, the Company has provided reading materials to all Directors to update them on the latest developments and changes to the Listing Rules, including Director's Handbook 2020, Listing Rules amendments to codify existing practices into Listing Rules, Amendments relating to Environmental, Social and Governance Reporting Guide and the Listing Rules etc. Mr. Leung Yuen Wing also attended other seminars/training courses relevant to his profession and duties as a director.

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

## D. CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

During the year under review, Mr. Cai Jianjun acted as the chairman of the Company and Mr. Fang Gang acted as the chief executive officer of the Company until their resignation on 5 June 2020 and 15 July 2020 respectively. During these period, Mr. Cai, as the chairman, was focus on the strategic planning and development of the Group while the chief executive officer was responsible for the day to day management and oversees the Group's operational activities. The role of the chairman and the chief executive officer was separate and not performed by the same person. After the resignation of Mr. Cai and Mr. Fang, the Company has not yet identified the appropriate persons to fill in the vacancies. The Company will continue to identify appropriate persons to fill the vacancies.

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

## E. NON-EXECUTIVE DIRECTORS

As mentioned in Paragraph A above, during the year, two of the INEDs namely Ms. Choy So Yuk and Mr. Leung Yuen Wing were not appointed for a specific term. Mr. Leung Yuen Wing resigned as INED in January 2021, and only Ms. Choy So Yuk is not appointed for a specific term, However, she is 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. The Company will arrange to appoint Ms. Choy for a specific term.

## F. BOARD COMMITTEES

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

### Executive Committee

During the year, Mr. Wang Xiusong, Mr. Cai Jianjun and Ms. Zhang Rui resigned as a member of the Executive Committee of the Company (the "Executive Committee") and the newly appointed executive Directors were appointed members of the Executive Committee. The Executive Committee currently comprising three executive Directors, namely Mr. Meng Fanpeng, Ms. Yangyi and Ms. Wong Kai Ling. The Executive Committee was established to assist the Board in execution of its duties and to facilitate effective management. It has written terms of reference under which certain functions, including the daily operation and management functions have been delegated to it.

### Remuneration Committee

Subsequent to the retirement of Mr. Zhu Dengkai in July 2020, the remuneration committee of the Company (the "Remuneration Committee") comprised Ms. Choy So Yuk, Mr. Wu Zhao and Mr. Leung Yuen Wing. Mr. Leung Yuen Wing resigned as a member in January 2021, the Remuneration Committee currently comprises three INEDs, namely Ms. Choy So Yuk (the chairman), Mr. Wu Zhao and Mr. Wong Chun Hung. 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 the existing share option scheme in 2017 to reward those eligible participants who contribute to the success of the Group's operations.

During the year, the Remuneration Committee held 3 meeting and the attendance of individual members of the Remuneration Committee at the meeting is set out below:

| **Committee Members** | **Number of meetings attended/held** |
|---|---|
| Mr. Zhu Dengkai *(chairman)* (retired at the 2020 AGM) | 2/2 |
| Ms. Choy So Yuk | 3/3 |
| Mr. Leung Yuen Wing (resigned on 22 January 2021) | 3/3 |
| Mr. Wu Zhao | 3/3 |

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 to review 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

During the year, Mr. Wang Xiusong and Mr. Zhu Dengkai ceased to act as members of the nomination committee of the Company (the "Nomination Committee") and Ms. Wong Kai Ling was appointed a member of the Nomination Committee. Mr. Liu Wei and Mr. Leung Yuen Wing ceased to act as the chairman and a member of the Nomination Committee respectively after their resignation as INEDs in January 2021. Currently, the Nomination Committee comprises three INEDs, namely Ms. Choy So Yuk (as the chairman), Mr. Wu Zhao and Mr. Wong Chun Hung and one executive Director, Ms. Wong Kai Ling. The terms of reference of the Nomination Committee is available on the respective websites of the Company and the Stock Exchange.

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

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

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

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

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

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

During the year, the Nomination Committee held 4 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 |
|---|---|
| Ms. Choy So Yuk (act as chairman) | 4/4 |
| Mr. Liuwei (resigned in January 2021) | 3/4 |
| Mr. Leung Yuen Wing (resigned in January 2021) | 3/4 |
| Mr. Wu Zhao | 4/4 |
| Mr. Zhu Dengkai (retired in July 2020) | 3/3 |
| Ms. Wong Kai Ling (appointed in May 2020) | 3/3 |
| Mr. Wang Xiusong (resigned in May 2020) | 1/1 |

During the year, 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, the Board Diversity Policy and the Nomination 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 and re-appointment of executive Directors, non-executive Director and an INED.

## 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 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. The Nomination Committee has specific procedures for identifying, assessing and nominating suitable candidates for appointment of new directors. 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

During the year under review, Mr. Zhu Dengkai ceased to act as a member of the Audit Committee subsequent to retirement as an INED at the 2020 AGM. Subsequent to the retirement of Mr. Zhu, the Audit Committee comprised Mr. Leung Yuen Wing (as the chairman), Ms. Choy So Yuk and Mr. Wu Zhao. Mr. Leung Yuen Wing resigned as the chairman of the Audit Committee in January 2021. The Audit Committee currently comprises three members, namely Mr. Wong Chun Hung (as chairman), Ms. Choy So Yuk and Mr. Wu Zhao, 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 four meetings to review the interim results, financial reporting matters and other areas of concerns during the audit, the recommendations by the external expert on enhancement of internal control and risk management. The external expert has not identified any significant control failings and views that the risk management and internal control systems in general is effective to safeguard the interests of the shareholders. It also reviewed the Group's annual and interim report for the year with recommendations to the Board for approval, reviewed the independence of the external auditors, discussed with the management and the external auditor the accounting policies and practices which may affect the Group. 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)* (resigned in January 2021) | 4/4 |
| Ms. Choy So Yuk | 4/4 |
| Mr. Wu Zhao | 4/4 |
| Mr. Zhu Dengkai | 2/2 |

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 2020 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, Dividend Policy, Guidelines on Disclosable and Connected Transactions and Inside Information Disclosure, 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$768,000 (2019: HK$900,000), and the non-audit service provided to the Company for the year 2020 amounted to HK$110,000 (2019: HK$Nil). The non-audit service is for review of the interim results.

## 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 2020, 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 2020, 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$408,435,000 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$60,929,000.

Accordingly, the current liabilities exceed current assets by HK$549,603,000 and the Group incurred net loss amounted to HK$382,174,000 for the year ended 31 December 2020. 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.

The Board review effectiveness the internal control and risk management. The Group has engaged an independent professional advisor to assist the Board and the Audit Committee in ongoing monitoring of the internal control systems and risk management of the Group by identifying deficiencies in the design and the implementation of internal controls and proposing recommendations for improvement. The independent professional advisor has also carried out the internal audit functions.

The Board has reviewed the risk management report and internal control report prepared by the independent professional advisor. The review of the internal control and risk management covered major 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. Recommendations for improving control weakness have been provided. Appropriate measures will be implemented so as to resolve internal control deficiencies, if necessary. The systems were considered adequate in general to safe guard the interests of the shareholders investments.

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.

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

## K. COMPANY SECRETARY

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

## L. SHAREHOLDERS' RIGHTS

### Convening a general meeting

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

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

### Putting enquiries to the Board

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

### Putting forward proposal at general meeting

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

## M. COMMUNICATION WITH SHAREHOLDERS

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

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

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

## N. INVESTOR RELATIONS

There was no change to the Company's Bye-laws during the financial year 2020. A copy of the latest Bye-laws are posted on the websites of the Company and the Stock Exchange.

# Environmental, Social and Governance Report

## ABOUT THIS REPORT

Silk Road Logistics Holdings Limited (hereinafter referred to as "Silk Road") which is an investment holding company, and its subsidiaries (collectively, the "Group" or "we") principally engages in commodity trading; oil exploration, refining, production and sale; as well as logistics and warehousing which has become one of the Group's major business activities since 2015. We are dedicated to incorporating sustainability principles into our strategic planning and daily operations through transparent measures, not only to enhance our competitiveness, but also to deliver enduring values to our major stakeholders including shareholders, employees, customers and the general public. The Group is committed to fulfilling its responsibility to the environment in its operations by limiting its environmental pollution and emission, conserving energy and promoting recycling, as well as stringent compliance with national and regional environmental laws to curtail pollution in daily operations.

In order to construct long-term trusted ties with community stakeholders, the Group is pleased to publish our environmental, social and governance ("ESG") report (the "Report") for the fiscal year of 2020 to give an overview of our ESG performance and initiatives.

### Reporting Scope

The Report presents the Group's ESG management approach, performance and material topics within its core business from 1 January 2020 to 31 December 2020 (the "Reporting Year" or "FY2020"). Same as FY2019, the scope of the Report covers Silk Road Logistics (Qian'an) Co., Ltd. (referred to as the "Company"), a core subsidiary of the Group, whose logistics and warehousing business generates the major revenue of the Group. Unless otherwise specified, the key performance indicators ("KPIs") cover the logistic centre of the Company in Qian'an, Hebei Province.

### Reporting Principles

The Report has been compiled and presented in accordance with the ESG Reporting Guide under Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited ("HKEx ESG Reporting Guide") and is published annually.

1. Materiality: The information disclosed in the Report was compiled, evaluated and presented based on its materiality to the Group's business and to its stakeholders. The reporting scope is defined based on the significance of the Group's operations.

2. Quantitative: KPIs in the Report were calculated and analysed with reference to a series of international standards. Therefore, the effectiveness of the Company's ESG initiatives can be evaluated and verified through data comparison. Relevant statistical standards, methodologies, assumptions and calculation tools as well as sources of conversion factors for emission and energy consumption are disclosed and quantitative information is provided with narrative to explain its purpose if appropriate.

3. Balance: The Report provides an objective and unbiased picture of the Company's ESG performance and avoids selections and omissions that may inappropriately influence judgement of readers. Achievements and rooms for improvement of the Group's sustainability management can be evaluated and validated by data comparison with historical data. Achievements and rooms for improvement of the Company's sustainability management can be evaluated by data comparison with historical data.

4. Consistency: The Report has been prepared in the same way in terms of information collection, reporting framework, data calculation methods (including ESG data collection and KPIs adopted) and reporting scope for meaningful comparison. Additional two environmental KPIs have been added in the Reporting Year to enhance the comprehensiveness of the Report. Please refer to later section headed "Environmental Management" for details.

### Feedback

Any comments regarding the Report or the ESG performance of the Company can be raised through the following channels. The Group values your opinions:

| | |
|---|---|
| Address: | Room 1702, 17th Floor,<br>COFCO Tower,<br>262 Gloucester Road,<br>Causeway Bay, Hong Kong |
| Telephone: | 852 2895 6733 |
| Fax: | 852 2895 6876 |
| E-mail: | enquiry@srlhl.com |

## SUSTAINABILITY GOVERNANCE

The Group is dedicated to fulfilling its corporate social responsibility throughout its business operations by incorporating sustainability principles into its vision and corporate governance structure. Regular assessment on ESG issues related to its business is conducted to limit its impact on the environment and the society.

**Environment**
- Emissions
- Use of resources
- The environment and natural resources
- Climate change

**Social**
- Employment
- Health and safety
- Development and training
- Labour standards
- Supply chain managment
- Service responsibility
- Anti-corruption
- Community investment

**Governance**
- Decision making
- Compliance
- Stakeholder engagement
- Corporate governance

# Environmental, Social and Governance Report

The Group proactively incorporates ESG issues in its decision making to eliminate risks to business operations and to look for opportunities in the ever-changing market. The Board of Directors (the "Board") is the highest decision-making and management authority of the Company, who is accountable for formulating the Group's overall strategy, setting business directions and monitoring business performance. Besides, the Management is delegated not only to manage ESG development and risks, but also to govern daily operations, including formulating, executing and monitoring strategies and plans with the supports from representatives of various departments. It is also responsible for identifying operational risks and evaluating the effectiveness of the risk management and internal control systems on a regular basis and such result is reported to the Board which reviews the ESG policies and their execution regularly to enhance the ESG governance structure and ensure the compliance with the Group's ESG standards.

## STAKEHOLDER ENGAGEMENT

The Group is committed to comply with legal and regulatory requirements and has been maintaining a high level of corporate disclosure. We believe that stakeholder value can be enhanced and created through clear communication of the Company's strategy, business development and prospects under close collaboration with its stakeholders; thus, we value their interests and opinion, their engagement in particular.

The Group convenes general meeting annually, through which the Management not only explain the operational status of the Group, but also listen directly to feedbacks from shareholders, facilitating two-way communication between the Board and investors. The Company, in addition to convening general meetings, maintains a close relationship with stakeholders such as customers and cooperative business units which are responsible for warehouse management and listens to their opinion and needs through visits, telephone calls and customer service. The overall performance of the Group is published annually in the annual report and presented to investors. Moreover, all news related to the Group is published in the website of Silk Road, including financial information and reports, changes in and list of directors as well as other important information such as acquisitions or disposals. Financial highlights are updated on a regular basis as well to enable shareholders and people from different sectors to deepen their understanding of and enhance communication with the Group. In order to identify stakeholders' insights and concerns on business operations, the Group communicates with key stakeholders by various means (as shown in the table below) on a regular basis.

| Major stakeholders | Ways of communication | Issues of concern |
|---|---|---|
| **Investors** | Maintain close, transparent and efficient communications with stakeholders via annual general meetings, emails, investor relations hotlines, investor mailboxes, announcements and so on. | • Service quality<br>• Corporate governance and risk management<br>• Information disclosure and investor relations |
| **Customers** | Customers can express their views via telephone, e-mail, etc., and the staff from the customer service department gives customers an appropriate reply as soon as possible. | • Use of resources<br>• Service quality<br>• Health and safety |
| **Employees** | Formulate rules and regulations for employment and employee benefits, and raise employees' awareness of occupational safety and health by means of training. | • Employee development and training<br>• Health and safety<br>• Labour standards |
| **Suppliers** | Establish an open and transparent procurement policy by means of emails, meetings as well as reviews and evaluation to achieve mutual benefits and a win-win result with suppliers. | • Supply chain management<br>• Health and safety<br>• The environment and natural resources |
| **Industry associations** | Organise and participate in activities of the HeBei Logistics Association to promote the development of the logistics industry. | • Use of resources<br>• Service quality<br>• Supply chain management |

The Report discloses and responds to the issues of concern to the above stakeholders. The Group will continue to review and formulate corresponding ESG policies, strategies and goals; work out appropriate response measures and control procedures; and enhance the disclosure of the ESG reports, with a view to improving our ESG performance on an ongoing basis.

## ENVIRONMENTAL MANAGEMENT

As the world economy and social development enter a "new normal" pattern, environmental protection is of utmost importance 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, the Management closely monitors environmental management issues in the operational process and strives to mitigate environmental impacts as well as fulfils the continual commitment on environmental protection.

Moreover, the Chinese government has promoted environmental protection in recent years with a focus on pollution control and environmental quality improvement by introducing the Environmental Protection Law of the People's Republic of China ("PRC") and the Environmental Protection Tax Law of the PRC to enhance pollution control and environmental protection. In line with the national policies, the Company implements relevant environmental measures in its scope of business. During the Reporting Year, the Company did not have any material breach of the laws and regulations related to air and GHG emissions, discharges into water and land, and generation of hazardous and non-hazardous waste, nor did it receive any complaints in respect of or related to the above two laws.

### Air Emission Control

The exhaust gas emission of the Company is mainly generated from the emission of vehicles, while the main types of air emissions are nitrogen oxides ("NOx"), sulphur oxides ("SOx") and particulate matters ("PM"). Various measures have been adopted against the identified emission source, including monitoring of exhaust gas emissions from equipment. Company vehicles are inspected within a specified period in accordance with relevant regulations of tail gas.

The Company understands that long-distance transportation increases energy consumption and leads to an increase in carbon emissions. Therefore, the Company gives priority to modern communication modes, including internet video conferencing, to trim the needs for business travel, which in turn reduces carbon emissions caused by transportation. If business travel is required, priority is mainly given to public transportation to reduce additional carbon emissions and vehicle fuel consumption. High-speed rail is preferred if it is available because it is powered by electric energy, thus it is both convenient and effective in substantially reducing emission of exhaust gases.

With the implementation of the above measures, exhaust gas emissions are decreasing gradually, and each of the emissions is reduced by no less than 20%, of which SOx is reduced by 80%. The results are set out in the following table:

| **Air emissions**[1] | **FY2020** | FY2019 | FY2018 |
|---|---|---|---|
| NOx (kg) | **6.36** | 8.22 | 28.40 |
| SOx (kg) | **0.10** | 0.55 | 0.83 |
| PM (kg) | **0.47** | 0.60 | 2.72 |

### Monitoring Greenhouse Gas ("GHG") Emissions

The Company's direct GHG emissions ("Scope 1") cover the emissions from fuel combustion by company vehicles and use of carbon dioxide fire extinguishers. The indirect GHG emissions from energy ("Scope 2") are the GHG caused by the consumption of purchased electricity during operation. In the Reporting Year, the Company's Scope 1 emissions accounted for 2.4% of the Company's total GHG emissions, while Scope 2 emissions accounted for 97.6%.

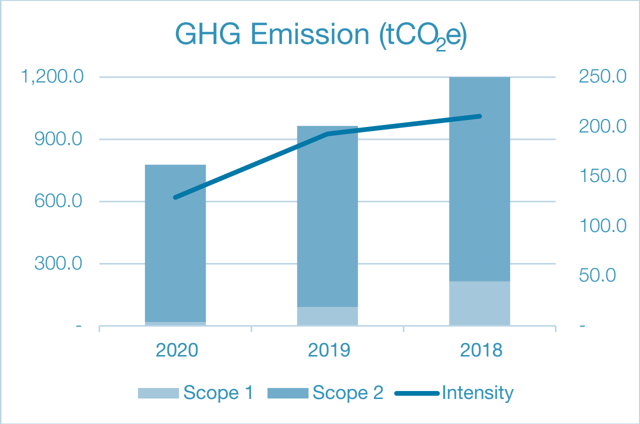
1 Air emissions calculations are based on the formula and emission factors listed in Appendix 2 Reporting Guidance on Environmental KPIs of How to Prepare an ESG Report issued by HKEx.

The Company's GHG emissions are emissions mainly from the use of purchased electricity and vehicle fuel combustion. The Company has established emission reduction measures for these two identified major emission sources. In terms of vehicle emissions, our employees are encouraged to use public transportation, in addition to regular inspection and maintenance of company vehicles. We have worked out regulations on the use of electricity as well. For details, please see the following section headed Use of Resources.

GHG emissions are on the decrease after the Company implemented the above measures. Total GHG emissions fall by nearly 20% compared to FY2019, while emission intensity decreases by more than 30%. The significant fall in Scope 1 emissions during the Reporting Year was mainly due to reduced use of vehicle fuel.

The following table and chart set out the total amount and intensity of the Company's GHG emissions in the past three reporting years:

| GHG emissions | FY2020 | FY2019 | FY2018 |
|---|---|---|---|
| Scope 1[2] (tonne carbon dioxide equivalent ("$tCO_2e$")) | **19.08** | 90.9 | 214.6 |
| Scope 2[3] ($tCO_2e$) | **758.40** | 873.8 | 1,049.6 |
| **Total emission ($tCO_2e$)** | **777.48** | 964.7 | 1,264.2 |
| GHG emission intensity ($tCO_2e$/operating facility) | **129.58** | 192.9 | 210.7 |
| Number of operating facilities[4] | **6** | 5 | 6 |




[2] Scope 1 emissions are calculated by using published emission factors from the National Greenhouse Gas Inventories Guide published by the Intergovernmental Special Committee on Climate Change.

[3] Scope 2 emissions are calculated according to the emission factors contained in the China Regional Power Grid Baseline Emission Factors for Emission Reduction Projects in 2019 published by China Climate Change Info-Net.

[4] During the Reporting Year, the Company has 6 facilities in total, including 4 enclosed warehouses, 1 office building and 1 affiliated building (containing 1 open-field warehouse).

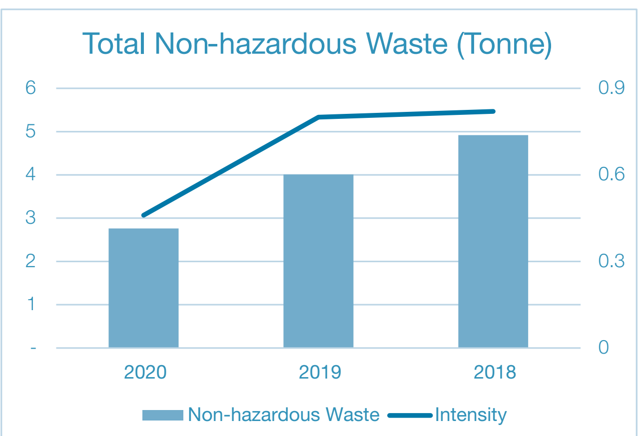
### Waste Management

The Company adopts appropriate reduction measures against various types of wastes to reduce their damage to the environment. Under the applicable circumstances, relevant wastes are classified and recycled for effective reduction of waste quantities and fulfilment of corporate social responsibility. Since logistics and warehousing is the principal business of the Company, only a very small amount of office hazardous waste is produced, mainly toner cartridges, which we did not disclose previously. The Company's major type of non-hazardous waste is domestic garbage. Disclosure of the total amount of hazardous waste generated in the Reporting Year is added to continuously improve the disclosure and content of the Report.

For reducing those unnecessary wastes generated during operations, the Company strives to identify the recyclable wastes and allocate resources for recycling them as much as possible. Employees regularly collect and handle solid wastes according to their classification. Recyclable wastes, such as papers, plastics, etc. are sent to recyclers for appropriate handling. The effects of waste reduction measures are significant; the total amount of non-hazardous waste generated by the Company is reduced by more than 30% as compared with that of previous year.

The following table and chart set out the total amount and intensity of wastes generated by the Company for the past three reporting years:

| | **2020** | 2019 | 2018 |
|---|---|---|---|
| **Total amount of non-hazardous wastes generated (tonne)** | **2.76** | 4.01 | 4.92 |
| Emission intensity per operating facility (tonne/operating facility) | **0.46** | 0.80 | 0.82 |
| **Total amount of hazardous wastes generated (tonne)** | **0.0085** | – | – |
| Emission intensity per operating facility (tonne/operating facility) | **0.0014** | – | – |
| Number of operating facilities | **6** | 5 | 6 |



## Use of Resources

The Company is aware of its social responsibility in maintaining environmental sustainability. It is constantly looking for a business model that reduces resources and energy consumption in order to move towards green operations. Since our operations are mainly confined to the office and warehouse environment, which create limited environmental impacts, it is our priority to cultivate a green business culture. We have worked out policies and guidelines for green offices and warehouses in the logistics park to reduce resources consumption by giving priority to environmental sustainability in our operations through working together with our employees to reduce cost, risks and environmental impacts. The management of resource consumption covers three aspects: raising of employees' awareness, administrative measures and managing equipment. The Company issues an energy conservation notice to all employees in the office; small posters are posted in the office to remind our employees to save energy; and our employees are required to turn off lights in their respective areas before leaving office.

### Energy Conservation

- Use of LED energy-saving lighting: the Company's road lamps have all been replaced with LED lamps
- Employees are required to timely report to their department heads for arranging repair of electrical equipment if appropriate
- Employees are educated to switch off lighting, fans, and air-conditioners, etc. when they are not in use
- Establish internal rules to govern energy consumption and conservation. Employees are required to participate in activities of energy conservation and emission reduction. Temerature of air-conditioning is maintained at optimal temperature 26°C

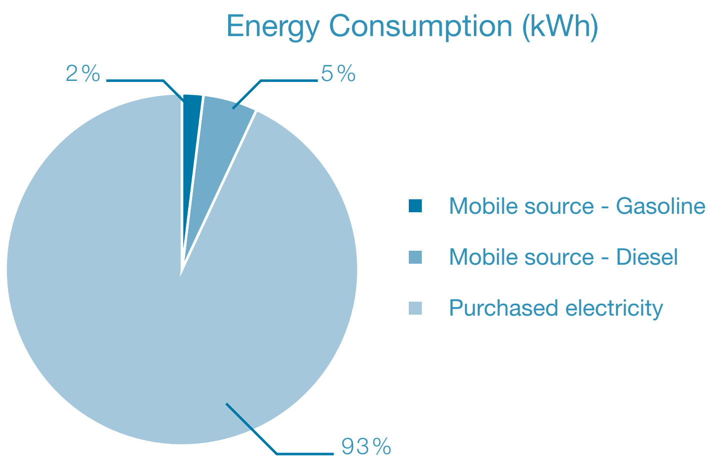
### Water Conservation

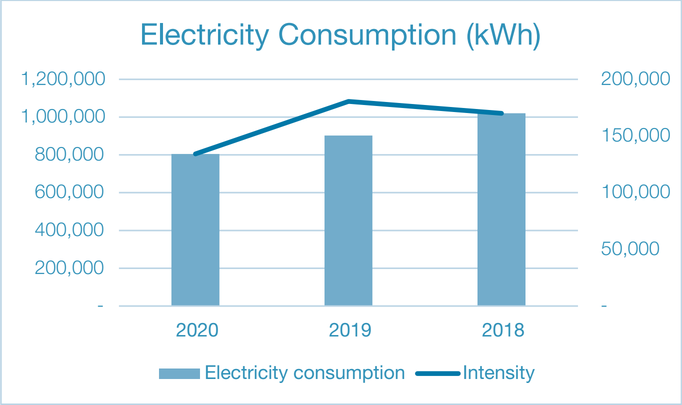
- Automatic flushing systems are installed in washrooms
- Employees are required to timely report to their department heads for arranging repair of leakage faucets
- Total water consumption is reported on a monthly basis for regular evaluation of effectiveness on water conservation
- Notes to remind staff to conserve water are posted

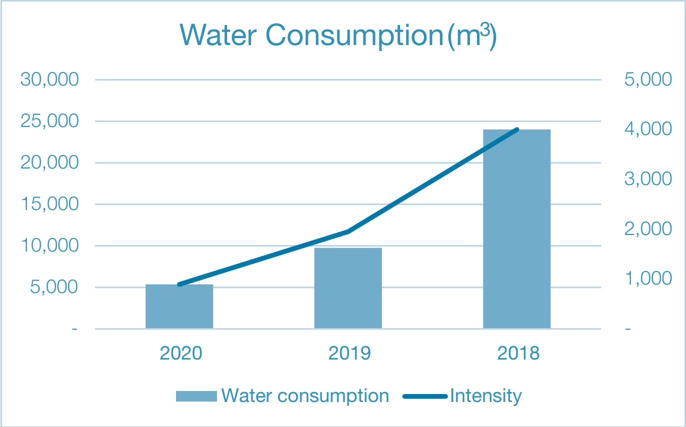
### Use Less Paper

- Promote green office to increase the use of electronic files in replacement of printouts
- SAP system is applied to integrate logistics system business with financial data to reduce the use of printouts and paper consumption
- Employees are encouraged to use double-sided printing and reuse single-sided paper

The Company has proactively implemented various strategies to improve resource efficiency and reduce damages to the ecological environment. Relevant awareness promotion campaigns have been arranged on energy conservation and emission reduction on a regular basis, which help employees develop working habits of energy conservation and environmental protection. Furthermore, we have also adopted advanced technology to reduce energy consumption. We have installed geothermal pump in the warehouse facilities to use geothermal energy on the surface of the earth for energy exchange and heating up circulatory water within the central air-conditioning system. Amount of water used in geothermal pump for heating circulatory water is 50m3 per hour. The principle behind that is to use the difference in temperature between underground water and surface water for heating the water within the geothermal pump. Heated water would then be discharged to underground, and water would not be lost nor polluted during the process. As for using packaging materials, the Company's principal business is logistics and warehousing, therefore no packaging of finished goods is required under normal situation. The chart on the right shows the distribution of types of energy consumption of the Company, while the changes in total consumption and intensity of electricity and water over the past three reporting years are shown in the following two charts. During the Reporting Year, the Company's total electricity and water consumption were reduced by 11% and 45% respectively compared with the previous year.






The following table sets out the Company's total consumption and intensity of resources for the past three reporting years:

| | FY2020 | FY2019 | FY2018 |
|---|---|---|---|
| **Number of operating facilities** | **6** | 5 | 6 |
| **Gasoline consumption by mobile sources** | | | |
| (L) | **1,990** | 2,644 | 1,958 |
| (kWh) | **18,121** | 24,077 | 17,830 |
| Consumption intensity (L/operating facility) | **332** | 529 | 326 |
| **Diesel consumption by mobile sources** | | | |
| (L) | **4,601** | 31,792 | 49,515 |
| (kWh) | **46,163** | 318,980 | 496,801 |
| Consumption intensity (L/operating facility) | **767** | 6,358 | 8,253 |
| **Electricity consumption by facilities** | | | |
| (kWh) | **805,177** | 902,736 | 1,020,380 |
| Consumption intensity (kWh/operating facility) | **134,196** | 180,547 | 170,064 |
| **Total energy consumption[5] (kWh)** | **869,461** | 1,245,793 | 1,535,011 |
| Water consumption[6] ($m^3$) | **5,355** | 9,753 | 24,018 |
| Consumption intensity ($m^3$/operating facility) | **892** | 1,951 | 4,003 |
| **Sewage discharge ($m^3$)** | **259** | – | – |
| **Paper consumption[7] (tonne)** | **0.58** | 0.98 | 0.28 |
| Consumption intensity (tonne/operating facility) | **0.10** | 0.20 | 0.05 |

5 Total energy consumption is the sum of mobile sources and electricity consumption and is a new KPI for FY2020. Total energy consumption of FY2018 and FY2019 is estimated based on their mobile source consumption. The conversion factor for converting gasoline and diesel consumption from volumetric unit to energy unit is determined by reference to CDP Technical note: Conversion of fuel data to MWh.

6 The water consumption is for domestic use. There is no issue of sourcing water in FY2020.

7 Paper consumption is mainly from office paper for printing instead of packaging materials.

### The 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 stores goods like steel materials or goods which have low impact on the environment, while the enclosed warehouses store bulk goods.

In addition, the Company also manages greening ratio in compliance with relevant local regulations. Pursuant to the Regulation for Tangshan Urban and Rural Planning and Technical Specification for Qian'an City Planning Management, the Company hits greening ratio up to 18.2%, close to reaching the ceiling target.

### Policy for Climate Change

The Company has regularly evaluated risks stemmed from climate change, including an annual assessment on flooding risks in rainy season. With identification of potential natural disasters and extreme weather arising from climate change, the Company has eventually formulated the Flooding Emergency Management Plan in response to the possible emergencies. Property insurance has been procured for alleviating the possible loss arising from natural disaster.

For prevention of damages incurred by climate change, the Company has formulated the Emergency Management Plan for Natural Disasters, detailing staff responsibilities and working principles, reporting mechanisms, evacuation systems and incident investigation requirements to help staff effectively respond to various emergency situations, for example, installation of sand bags in response to flooding caused by earthquake and extreme weather. The Company has also established the 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.

## RESPONSIBLE EMPLOYMENT

The Company believes attracting and retaining talents are the keys to the sustainable development of its business. Therefore, employment standards and working environment have always been our primary concern. As the vocational development as well as the physical and mental health of our employees are highly important to us, we strive to maintain a quality workplace where diversity, learning and respect are our core values.

### Employment Standards

The Company incorporates the requirements of local employment laws and regulations of its operating regions into its employment policies to ensure that employees are treated fairly and reasonably. During the Reporting Year, the Group stringently complied with the labour laws and regulations in PRC regarding compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, other benefits and welfare, and prevention of child and forced labour, among which are the Labour Law of the PRC, the Labour Contract Law of the PRC, the Social Insurance Law of the PRC, the Law of the PRC on the Protection of Women's Rights and the Law of the PRC on the Protection of Disabled Persons. The Company did not identify or receive any cases involving discrimination or other irregularities and complaints related to employment. The Company did not identify any cases involving the hiring of child labour nor the breach of laws related to forced labour during the Reporting Year. The compliance of these regulations demonstrates our respect for workers' rights, which helps enhance trust, loyalty and motivation among our employees.

### *Recruitment, Promotion and Equal Opportunities*

The Company complied with national laws and policies, treats all job seekers equally, sets no unequal restrictions or 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, taking 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 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 enhance 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 each employee. Male and female employees are treated equally. Moreover, employees are able to grow within the Company, which benefits both the employees and the Company. The Company has also formulated a promotion policy to motivate employees and build a fair, impartial and open promotion mechanism within the Company. Promotion is based on three key principles: (I) possession of integrity and competence which are of equal importance; (II) equal opportunities; and (III) the combination of career ladder promotion and "exceptional promotion".

The Company has various promotion schemes. Apart from seniority as a general rule, work performance and level of commitment are also important criteria for evaluating promotion. The general way of assessment is evaluation on work performance conducted by the responsible department manager. In addition to the quarterly evaluation by superior of 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 strictly complies with the Labour Contract Law of the PRC 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, indemnity and planned retirement arrangements) in accordance with the Labour Law of the PRC, the Labour Contract Law of the PRC and other relevant laws and regulations.

### *Anti-discrimination*

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

### *Employee Benefits*

The Company strictly abides by national laws and regulations related to human resource, providing 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, the Company firmly believes that having an outstanding team is a way to ensure the long-term development of the Company, and upholds the philosophy of "being people-oriented, having good intentions towards others, keeping abreast of the times and achieving mutual growth and prosperity" in its operation. 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 of employees who have both integrity and competence, which require that 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 a spirit of learning.

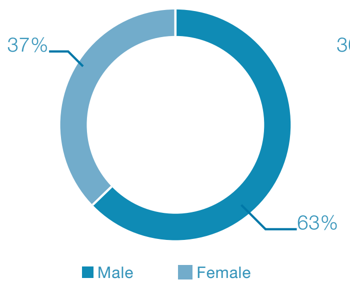
## Labour Standards

The Company abides by regulations pertinent to prohibiting child labour and forced labour. In the recruitment process, the identity cards of applicants are strictly reviewed to ensure they meet the statutory minimum age. The Company respects employees' rights in the aspects of recruitment, resignation, overtime work and personal freedom. All forms of forced labour, which include withholding of personal identity cards and request for deposits upon recruitment, are prohibited. Employees must not be required to work overtime on a mandatory basis. In case of any voluntary overtime work required for project urgency, employees are entitled to compensation in accordance with the law in the form of cash or holidays. Moreover, policies are established to ensure all employees are working on a 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 Company will handle and eliminate such violations in accordance with the law.

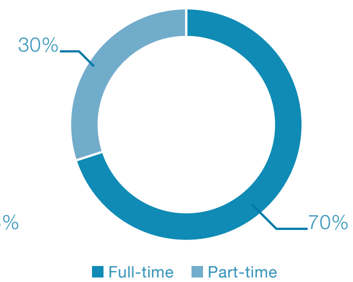
During the Reporting Year, all employees are located in China. The following table sets out the total number and distribution of the Company's employees for the past three reporting years:

| Total workforce[8] | FY2020 | FY2019 | FY2018 |
|---|---|---|---|
| **Gender** | | | |
| Male | **19** | 13 | 12 |
| Female | **11** | 10 | 13 |
| **Type of employment** | | | |
| Full-time | **21** | 23 | 25 |
| Part-time | **9** | 0 | 0 |
| **Age group of employees** | | | |
| 18 – 24 | **0** | 2 | 4 |
| 25 – 34 | **22** | 8 | 9 |
| 35 – 44 | **0** | 5 | 3 |
| 45 – 54 | **5** | 6 | 4 |
| 55 – 64 | **3** | 2 | 5 |
| **Total** | **30** | 23 | 25 |

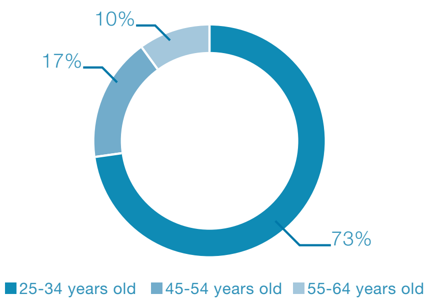
Workforce by Gender




Workforce by Type




Workforce by Age Group




The Company recorded an overall turnover rate of 20.3% during the Reporting Year. The following table sets out the rate of employee turnover to the total number of employees for the past three Reporting Years:

| Turnover rate (%) | FY2020 | FY2019 | FY2018 |
|---|---|---|---|
| **Gender** | | | |
| Male | **7.0** | 14.1 | 8.3 |
| Female | **38.7** | 0 | 23.0 |
| **Employee age** | | | |
| 18 – 24 | **–** | 37.5 | 0 |
| 25 – 34 | **5.7** | 0 | 0 |
| 35 – 44 | **–** | 17.9 | 33.3 |
| 45 – 54 | **96.0** | 0 | 75.0 |
| 55 – 64 | **0** | 0 | 0 |
| **Region** | | | |
| China | **20.3** | 8.4 | 16.0 |

[8] Total workforce is calculated based on the data at 31st December of each Reporting Year.

## Occupational Safety and Health

Ensuring the occupational safety and health of employees should be the top priority for every enterprise, 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 medical supplies for emergency use. Safety of workplace and operating procedures together with employee education on dealing with some possible unexpected accidents are also key concerns. Therefore, the Company provides safety training for employees, including new recruits. During the Reporting Year, a total of two safety training sessions were arranged. In addition, physical examination was provided by the Company. During the Reporting year, there was a total of 15 participants attending physical examination and no case of occupational disease was diagnosed. Owing to the characteristics of the logistics industry, even for those people who may have access to workplaces other than the Company's employees, relevant safety and health policies have been developed in this regard.

During the Reporting Year, none of the Company's business was found in violation of PRC laws related to occupational health and safety, including the Law of the PRC on the Prevention and Control of Occupational Diseases, the Law of the PRC on Production Safety and the Fire Protection Law of the PRC.

### *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 or too heavy are not permitted to enter.

In addition, the Company has developed appropriate safety management systems and procedures according to the logistics business' operation process. Loading and unloading operation management and the safety and maintenance of lifting equipment are among the important aspects of the Company's safety management. Forklifts and gantry cranes are extensively used in our routine operating procedures. Due to the complexity of their operation, the Company has documented relevant requirements for their management. The Company has a work safety officer and a work safety administrator as well and provides them with appropriate training to ensure safe operation in the workplace.

**Loading & Unloading**

- Formulate Loading and Unloading Management Policy
- Allow employees to understand safe execution of this important work procedure depends on the strict compliance of and cooperation from all employees

**Lifting**

- Formulate Policy for the Operation of Lifting Equipment to ensure work safety in routine operations
- Machinery and equipment are inspected and maintained regularly, and inspection is arranged biannually
- 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 installation or maintenance of hoisting machinery must have relevant operating certificates

**Forklifts**

- Formulate Rules for the Operation, Maintenance Management and Safe Operation of Forklifts
- Forklifts must be operated by specialist drivers
- Items for routine inspection and maintenance are all clearly specified to ensure employees clearly understand what the requirements are
- Operational routes and speed limits are stipulated to avoid accidents as far as possible

**Gantry Cranes**

- Formulate the Policy for the Management of Safety of Gantry Cranes
- Employees are required to receive specialist training, 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 Plans***

Despite it is difficult to predict accident occurrence, the Company aims to instil employees with knowledge on safety and emergency response to reduce casualties and losses in the event of accidents. Therefore, the Company has developed relevant management systems and emergency plans for identified security risks, such as providing regular fire emergency drills, and formulating the Emergency Response Plan for Lifting Equipment to prevent and deal with 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. In response to COVID-19, the Company also quickly developed the Epidemic Prevention and Control Management System and the Epidemic Prevention and Control Emergency Response Plan, which set out the prevention and control measures during the pandemic, the responsibilities of each staff team and the reporting and recording mechanism are stipulated to help staff respond to various emergencies under the epidemic in a systematic and rapid manner.

| Fire and emergency drills | • Post fire evacuation routes in all workplaces to clearly instruct employees on the safe route to leave the scene<br>• Arrange regular fire drills for staff and invite other partners such as contractors to participate |
|---|---|
| Emergency Response Plan for Lifting Equipment | • Uphold the principles of "Safety comes first, precaution is top priority" and "Priority is given to the protection of employee safety and the environment"<br>• Set up an emergency response leading team to deal with on-site accidents<br>• Define requirements for first aid supplies preparation, relevant drills and training, communication channels and division of labour for personnel |
| Epidemic Prevention and Control Emergency Response Plan | • Establish a command team for epidemic prevention and control<br>• Strictly implement the prevention and control and notification measures of regional government<br>• Maintain a clean working environment and ventilation<br>• Search for and procure prevention and control materials<br>• Notify and record relevant cases |

***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. The plan aims at rectifying the following four critical areas:

(i) Inspection on safety of firefighting facilities;

(ii) Inspection on safety of electricity use;

(iii) Inspection on safety of special equipment;

(iv) Inspection on transport safety.

The following table sets out the rate of work-related fatalities and number of lost days due work injury for the past three reporting years.

| | FY2020 | FY2019 | FY2018 |
|---|---|---|---|
| Rate of work-related fatalities | **0** | 0 | 0 |
| Number of lost days due to work injury | **0** | 0 | 0 |

## Development and Training

The Company formulates annual training plans to provide employees with different types of training and strives to provide them with opportunities for professional growth, facilitating their career development as well as fulfilling the long-term business needs of the Group. In addition, our Hong Kong headquarters also covers the training cost of eligible employees, so as to encourage employees' proactive participation in training courses conducted by professional institutions, with a view to raising their professional skills and knowledge.

Furthermore, to encourage continual development of employees and establish a highly qualified team, the Company has set up a staff scholarship system in addition to provision of subsidies for job-related training. For employees graduated at college level or above, they would be entitled to a one-off scholarship, which serves as the Company's incentive to encourage employees studying in their leisure time.

The decline in training rates in the Reporting Year was due to the failure to conduct various training activities during the pandemic. The following table sets out the percentage of internally trained employees to the total workforce in the Company for the past three reporting years:

| Percentage of employees trained (%) | FY2020 | FY2019 | FY2018 |
|---|---|---|---|
| **Gender** | | | |
| Male | **28.1** | 100 | 41.7 |
| Female | **0** | 100 | 7.7 |
| **Employee Category** | | | |
| Senior management | **–** | 100 | 0 |
| Middle management | **53.8** | 100 | 0 |
| General staff | **13.0** | 100 | 25.0 |

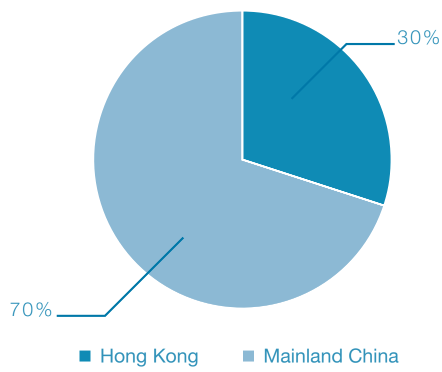
During the Reporting Year, the Company provided a total of 109 hours in training for employees. The following table sets out the average training hours per employee by gender and employee category:

| | FY2020 Total training hours (Hour) | Average training hours per person (Hour/person) |
|---|---|---|
| **Gender** | | |
| Male | **109** | 7.65 |
| Female | **0** | 0 |
| **Employee Category** | | |
| Senior management | **–** | – |
| Middle management | **27** | 14.54 |
| General staff | **82** | 3.55 |

## SUPPLY CHAIN MANAGEMENT

Service quality is closely related to contractor performance, hence prior to making the decision on inclusion of potential suppliers or contractors in the approved list, we will take account of their reputation, background, experience, past performance, and delivery timeliness. In addition, their performance will also be evaluated in the aspects of safety, quality, environmental and security management. The Company engaged 10 suppliers during the Reporting Year, the distribution of suppliers is shown in the chart on the right. Moreover, the Company considers their associated environmental and social risks, and therefore priority is given to suppliers/contractors or their associated supplies and services which comply with the following criteria:

Distribution of Suppliers




1. Institutions obtaining green or environmental certification

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

3. Institutions obtaining awards or certificates related to corporate social responsibility

4. Supplied products contain materials with environment-friendly characteristics

5. Supplied products are energy-efficient products or equipment

Qualified contractors/suppliers are enlisted in the Approved Contractor/Supplier List, and only contractors/suppliers on the list can be engaged for relevant services or procurement contracts. If the performance of a contractor/supplier is unsatisfactory or fails to meet contractual requirements, the contractor/supplier will be removed from the list upon approval of the 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 to 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 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 also convened with contractors by the Company, so as to facilitate communication on relevant critical areas of environmental protection and safety.

## SERVICE QUALITY

The Company is committed to continual improvement of service quality and immediate response to customers' enquiries. We have established customer service channels, if there is a complaint, our sales officers are 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 of a confidentiality agreement is a must at the time engaging service/procurement contracts with contractors/suppliers. Also, a confidentiality agreement must be signed with employees, who are required to abide by the policies and local regulations related to privacy of personal information, before they are on board, so as to protect customer information.

The following table sets out the percentage of products recalled due to safety and health reasons and the number of complaints related to products and services for the past three reporting years.

| | **FY2020** | FY2019 | FY2018 |
|---|---|---|---|
| Percentage of products recalled due to safety and health reasons | **0** | 0 | 0 |
| Number of complaints related to products and services | **0** | 0 | 0 |

During the Reporting Year, the Company strictly complied with relevant laws and regulations regarding the security and privacy of the services it provided, including the Civil Code of the PRC, and did not identify any legal non-compliance related to responsibilities of products or services. Based on its business nature, the Company is not aware of any laws or regulations that have a material impact on its business relating to advertising and labelling of the services it provided.

## ANTI-CORRUPTION

The Company requires employees to abide by relevant laws and regulations and prohibits all forms of fraud and corruption practices: including prohibition of all employees requesting or accepting commission, rebate, bonus, loan, gift or benefit from any person, company, or institution that has business relationship with the Group, unless with the approval of the Board and subject to compliance with relevant laws and regulations.

Anti-corruption and anti-bribery are essential elements in creating a fair business environment; the Company strictly implements the following controls:

(i) Ensures the Management team proficiently understands national policies against business corruption and those related to integrity, so they can lead the Company's operating activities, strengthen supervision, and make 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 from the Accounting Department, their awareness of integrity is established to ensure they are aware of the severity of falsification of account; and

(iv) Annual financial audit is conducted to monitor the related performance of the employees in the Accounting Department.

The Company, in compliance with control requirements, has established a bribery whistleblowing mechanism, which plays a crucial role in the entire anti-corruption process. Upon receipt of the related report, the Company keeps the identity of any whistle-blower, reported content, and the status of investigation confidential, and cooperates with relevant departments for investigation.

During the Reporting Year, the Group did not identify any legal non-compliance or complaint related to violation of the Anti-Corruption and Bribery Law of the PRC.

## COMMUNITY PARTICIPATION

The Company has been caring and contributing to society over the years through different channels. The scope of participation includes aspects like poverty alleviation, education, and environmental protection, etc., for example, the provision of emergency food assistance, safe production training, and pollution survey training. The Group understands that serving the community requires collaboration among different parties. In the past, we partnered with related charity bodies, such as St. James' Settlement People's Food Bank, or other professional institutions to conduct training or activities. The Company is also aware of climate change, which is a global crisis, and is determined to contribute towards environmental protection. Therefore, it works on preparedness against natural disasters and extreme weather in the logistic centre so that the community is better prepared for the impacts incurred by climate change. The Group is also aware of its social responsibility and hopes to give back to society as much as possible. During the Reporting Year, we made a modest donation to Po Leung Kuk to help the underprivileged in society.

## OUTLOOK

The Qian'an logistics business of the Group will actively align itself with needs of the national market, while taking into consideration the national concern on environmental protection as well as the social risks related to the industry. In the future, we will dedicate ourselves to launching more environmental policies and measures, which will be integrated into the related business strategies for further inclusion of sustainability into our business philosophy. The Group will also continue to review its corresponding policies, strategies and objectives to improve the performance and disclosure of our ESG report.

## HKEX ESG REPORTING GUIDE INDEX

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Chapter |
|---|---|---|
| **Aspect A Environmental** | | |
| A1 Emissions | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.<br>Note:<br>• Air emissions include NOx, SOx, and other pollutants regulated under national laws and regulations.<br>• Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.<br>• Hazardous wastes are those defined by national regulations. | Environmental Management |
| KPI A1.1 | The types of emissions and respective emissions data. | Environmental Management - Air Emission Control |
| KPI A1.2 | Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Management - Monitoring Greenhouse Gas ("GHG") Emissions |
| KPI A1.3 | Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Management - Waste Management |
| KPI A1.4 | Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility). | Environmental Management - Waste Management |
| KPI A1.5 | Description of measures to mitigate emissions and results achieved. | Environmental Management - Air Emission Control<br>Environmental Management - Monitoring Greenhouse Gas ("GHG") Emissions |
| KPI A1.6 | Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved. | Environmental Management - Use of Resources |
| A2 Use of Resources | Policies on the efficient use of resources, including energy, water and other raw materials.<br>Note:<br>Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc. | Environmental Management - Use of Resources |
| KPI A2.1 | Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility). | Environmental Management - Use of Resources |
| KPI A2.2 | Water consumption in total and intensity (e.g. per unit of production volume, per facility). | Environmental Management - Use of Resources |
| KPI A2.3 | Description of energy use efficiency initiatives and results achieved. | Environmental Management - Use of Resources |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Chapter |
|---|---|---|
| KPI A2.4 | Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved. | Environmental Management - Use of Resources |
| KPI A2.5 | Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced. | The Company's principal business is logistics and warehousing. Therefore, it is generally not necessary to package the finished products. |
| A3 The Environment and Natural Resources | Policies on minimising the issuer's significant impact on the environment and natural resources. | Environmental Management – The Environment and Natural Resources |
| KPI A3.1 | Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them. | Environmental Management – The Environment and Natural Resources |
| A4 Climate Change | Policies on identification and mitigation of significant climate-related issues which have impacted, and those which may impact, the issuer. | Environmental Management – Policy for Climate Change |
| KPI A4.1 | Description of the significant climate-related issues which have impacted, and those which may impact, the issuer, and the actions taken to manage them. | Environmental Management – Policy for Climate Change |
| **Aspect B Social** | | |
| B1 Employment | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare. | Responsible Employment - Employment Standards |
| KPI B1.1 | Total workforce by gender, employment type (for example, full- or part-time), age group and geographical region. | Responsible Employment - Labour Standards |
| KPI B1.2 | Employee turnover rate by gender, age group and geographical region. | Responsible Employment - Labour Standards |
| B2 Health and Safety | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards. | Responsible Employment - Occupational Safety and Health |
| KPI B2.1 | Number and rate of work-related fatalities occurred in each of the past three years (including the reporting year). | Responsible Employment - Occupational Safety and Health |
| KPI B2.2 | Lost days due to work injury. | Responsible Employment - Occupational Safety and Health |
| KPI B2.3 | Description of occupational health and safety measures adopted, how they are implemented and monitored. | Responsible Employment - Occupational Safety and Health |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Chapter |
|---|---|---|
| B3 Development and Training | Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.<br>Note:<br>Training refers to vocational training. It may include internal and external courses paid by the employer. | Responsible Employment - Development and Training |
| KPI B3.1 | The percentage of employees trained by gender and employee category (e.g. senior management, middle management). | Responsible Employment - Development and Training |
| KPI B3.2 | The average training hours completed per employee by gender and employee category. | Responsible Employment - Development and Training |
| B4 Labour Standards | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour. | Responsible Employment - Labour Standards |
| KPI B4.1 | Description of measures to review employment practices to avoid child and forced labour. | Responsible Employment - Labour Standards |
| KPI B4.2 | Description of steps taken to eliminate such practices when discovered. | Responsible Employment - Labour Standards |
| B5 Supply Chain Management | Policies on managing environmental and social risks of the supply chain. | Supply Chain Management |
| KPI B5.1 | Number of suppliers by geographical region. | Supply Chain Management |
| KPI B5.2 | Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored. | Supply Chain Management |
| B6 Product Responsibility | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress. | Service Quality |
| KPI B6.1 | Percentage of total products sold or shipped subject to recalls for safety and health reasons. | Service Quality |
| KPI B6.2 | Number of products and service related complaints received and how they are dealt with. | Service Quality |
| KPI B6.3 | Description of practices relating to observing and protecting intellectual property rights. | Due to its business nature, the Company does not have any issues relating to the protection of intellectual property rights. |
| KPI B6.4 | Description of quality assurance process and recall procedures. | Service Quality |
| KPI B6.5 | Description of consumer data protection and privacy policies, how they are implemented and monitored. | Service Quality |

| HKEx ESG Reporting Guide General Disclosures & KPIs | | Explanation/Reference Chapter |
|---|---|---|
| B7 Anti-corruption | Information on:<br>(a) the policies; and<br>(b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevent bribery, extortion, fraud and money laundering. | Anti-Corruption |
| KPI B7.1 | Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases. | Anti-Corruption |
| KPI B7.2 | Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored. | Anti-Corruption |
| B8 Community Investment | Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests. | Community Participation |
| KPI B8.1 | Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport). | Community Participation |
| KPI B8.2 | Resources contributed (e.g. money or time) to the focus area. | Community Participation |

# 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 2020.

## 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 41 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 6 to 10 and the "Statement from the Board" 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. The major subsidiary manages warehouse in the manner of mitigating environmental impacts. 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 bulk 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 2020 and the Group's financial position at that date are set out in the consolidated financial statements on pages 63 to 149.

The board of directors of the Company (the "Board") does not recommend payment of a final dividend for the year ended 31 December 2020 (2019: 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 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 151 to 152, 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 110 to 112.

## BANK AND OTHER BORROWINGS

Details of bank and other borrowings of the Group are set out in note 26 to the consolidated financial statements on page 125.

## SHARE CAPITAL

Details of movements in the Company's share capital during the year are set out in note 32 to the consolidated financial statements.

## 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 2020.

## DISTRIBUTABLE RESERVES

At 31 December 2020, the Company had no reserves available for distribution, calculated in accordance with the Companies Act 1981 of Bermuda (as amended) (2019: Nil).

## MAJOR CUSTOMERS AND SUPPLIERS

During the year, sales to the Group's five largest customers accounted for 99.84% (2019: 57.06%) of the total sales for the year and sales to the largest customer included therein amounted for 84.16% (2019: 42.93%). Purchases from the Group's five largest suppliers accounted for 100% (2019: 90.45%) of the total purchases for the year and purchases from the largest supplier included therein amounted for 90.59% (2019: 34.61%).

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:*
Ms. Wong Kai Ling (appointed on 13 May 2020)
Ms. Yang Yi (appointed on 22 June 2020)
Mr. Meng Fanpeng (appointed on 22 June 2020)
Mr. Wang Xiusong (resigned on 13 May 2020)
Mr. Cai Jianjun (resigned on 5 June 2020)
Ms. Zhang Rui (resigned on 22 June 2020)

*Non-executive Director:*
Mr. Qin Bo (appointed on 2 June 2020)
Mr. Zhou Hao (resigned on 2 June 2020)

*Independent Non-executive Directors:*
Ms. Choy So Yuk
Mr. Wu Zhao
Mr. Zou Mingwu
Mr. Wong Chun Hung (appointed on 22 January 2021)
Mr. Leung Yuen Wing (resigned on 22 January 2021)
Mr. Liu Wei (resigned on 22 January 2021)
Mr. Zhu Dengkai (retired on 10 July 2020)

In accordance with Bye-law 86(2) of the Company's Bye-laws, Mr. Wong Chun Hung will retire from office at the forthcoming annual general meeting and being eligible, offer himself for re-election as independent non-executive Director.

In accordance with Bye-laws 87(1) and 87(2) of the Company's Bye-laws, Ms. Wong Kai Ling, Ms. Choy So Yuk and Mr. Zou Mingwu will retire from office by rotation at the forthcoming annual general meeting and being eligible, Ms. Wong Kai Ling will offer herself for re-election as executive Director and Ms. Choy So Yuk and Mr. Zou Mingwu will offer herself/himself for re-election as independent non-executive Directors.

## 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.

## 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 and thereafter has extended the appointment for 6 months to 30 June 2020. 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 11 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 arranged appropriate 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.

## RELATED PARTY TRANSACTION

A summary of the related party transactions entered into by the Group during the year ended 31 December 2020 is contained in note 36 to the consolidated financial statements. 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 2020, 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. Meng Fanpeng | 480,000(L) | Personal interests | 480,000(L) | 0.01% |
| Ms. Choy So Yuk | 271,908(L) | Personal interests | 271,908(L) | 0.01% |

L – Long position

Save as disclosed above, as at 31 December 2020, 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 33 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 2020, 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 |
|---|---|---|---|---|
| Huarong Huaqiao Asset Management Co., Ltd.* ("Huarong Huaqiao") 華融華僑資產管理股份有限公司 | Interest of controlled corporation | Corporate interests | 1,703,728,222(L and S) (Notes 1 and 2) | 28.45% |
| China Huarong Asset Management Co., Ltd. ("Huarong Asset Management") 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 and S) (Notes 1 and 2) | 28.45% |
| Cai Jianjun ("Mr. Cai") | Interest of controlled corporation | Corporate interests | 1,703,728,222(L) (Note 2) | 28.44% |
| | Family Interest | Personal interests | 10,000,000(L) (Note 3) | 0.17% |
| | | | Total: 1,713,728,222(L) | 28.61% |
| Yuan Jing | Beneficial owner | Personal interests | 10,000,000(L) | 0.17% |
| | Family Interest | Corporate interests | 1,703,728,222(L) (Note 4) | 28.44% |
| | | | Total: 1,713,728,222(L) | 28.61% |
| China Yangtze River Petrochemical Group Limited ("Yangtze River") | Beneficial owner | Corporate interests | 1,703,728,222(L) (Note 2) | 28.44% |
| Xinya Global Limited 新亞環球有限公司 | Beneficial owner | Corporate interests | 438,224,120(L) (Note 5) | 7.32% |

### 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 |
|---|---|---|---|---|
| Tewoo Import & Export (HK) Limited | Interest of controlled corporation | Corporate interests | 438,224,120(L) (Note 5) | 7.32% |
| 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 5) | 7.32% |
| 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 5) | 7.32% |
| Tewoo Group (Hong Kong) Limited | Interest of controlled corporation | Corporate interests | 438,224,120(L) (Note 5) | 7.32% |
| 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 5) | 7.32% |
| 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 5) | 7.32% |
| 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 5) | 7.32% |
| Tianjn Guo Hong Enterprises Management Limited* 天津國弘企業管理有限公司 | Interest of controlled corporation | Corporate interests | 438,224,120(L) (Note 5) | 7.32% |

L – Long position

S – Short position

Notes:

1. China Huarong Investment Management Limited ("Huarong Investment Management") is interested in these 1,703,728,222 shares. Pure Virtue Enterprises Limited owns 100% of Huarong Investment Management and is wholly-owned by China Huarong Overseas Investment Holdings Co., Limited. China Huarong Overseas Investment Holdings Co., Limited is owned 100% by Huarong Huaqiao which is owned 91% by Huarong Zhiyuan Investment & Management Co., Ltd. Huarong Asset Management owns 100% of Huarong Zhiyuan Investment & Management Co., Ltd.

2. Pursuant to a put option deed entered into between Yangtze River, a company wholly-owned by Mr. Cai, and Huarong Investment Management, Huarong Investment Management may put any or all of these 1,703,728,222 shares to Yangtze River. Huarong Investment Management has exercised the put option on 24 June 2020 and Yangtze River is under an obligation to purchase these 1,703,728,222 shares.

3. Ms. Yuan Jing holds these 10,000,000 shares; Mr. Cai is the spouse of Ms. Yuan Jing, accordingly, Mr. Cai is deemed to have interest in these 10,000,000 shares.

4. Ms. Yuan Jing is the spouse of Mr. Cai, accordingly, she is deemed to have interest in the shares held by Yangtze River referred to Note 2 above.

5. These shares 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 Guo Hong Enterprises Management Limited and Tianjin Guo Xing Asset Operation Limited owns 50% of Tianjin Guo Xiang Asset Management Limited. Tewoo Group (Hong Kong) Limited is wholly owned by Tewoo Group Co., Limited.

* The Chinese name of these companies are translated into English for reference purposes only.

Save as disclosed above, the Directors are not aware of any other persons who, at 31 December 2020, had interests or short positions in the shares or underlying shares of the Company which are recorded in the register and required to be kept under Section 336 of the SFO.

## SUFFICIENCY OF PUBLIC FLOAT

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

## DIRECTORS' INTERESTS IN A COMPETING BUSINESS

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

# Report of the Directors

## 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

There was no significant event occurred after the reporting period.

## AUDITORS

The financial statements have been audited by CCTH CPA Limited who retired and, being eligible, offer themselves for re-appointment at the forthcoming annual general meeting of the Company. There were no other changes in the Company's auditors in the past three years.

ON BEHALF OF THE BOARD
**Meng Fanpeng**
*Executive Director*

Hong Kong
30 March 2021

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 63 to 149, which comprise the consolidated statement of financial position as at 31 December 2020, 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 2020 exceed the Group's current assets at that date by approximately HK$549,603,000 and the Group incurred net loss of approximately HK$382,174,000 for the year ended 31 December 2020.

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, as set out in note 2 to the consolidated financial statements. 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.

## 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, 30 March 2021

**Kwong Tin Lap**
Practising certificate number: P01953

Unit 1510-1517, 15/F, Tower 2,
Kowloon Commerce Centre,
No. 51 Kwai Cheong Road,
Kwai Chung, New Territories,
Hong Kong

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*Year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| REVENUE | 7 | **34,609** | 5,522,721 |
| Cost of sales and services | | **(32,912)** | (5,488,620) |
| Gross profit | | **1,697** | 34,101 |
| Other income and gains | 7 | **3,213** | 21,406 |
| Selling and distribution expenses | | **–** | (131) |
| Administrative expenses | | **(38,536)** | (58,411) |
| Gain on deemed acquisition of an associate | 17(c) | **1,651** | – |
| Loss on disposal of oil properties | 19 | **(1,573)** | (56,945) |
| Loss on deemed disposal of an associate | 17(b) | **–** | (7,891) |
| Impairment of goodwill | 18 | **(32,778)** | (14,250) |
| Impairment of interests in associates | 17(a) | **(274,898)** | (242,000) |
| Impairment of oil properties | 19 | **–** | (18,000) |
| Impairment of prepayments, deposits and other receivables | 22 | **(2,800)** | (4,474) |
| Share of (loss) profit of associates | 17 | **(3,663)** | 4,118 |
| Finance costs | 8 | **(51,498)** | (40,747) |
| LOSS BEFORE TAX | 9 | **(399,185)** | (383,224) |
| Income tax credit | 12 | **17,011** | 4,412 |
| LOSS FOR THE YEAR | | **(382,174)** | (378,812) |
| OTHER COMPREHENSIVE INCOME | | | |
| Items that may be reclassified subsequently to profit or loss: | | | |
| Exchange differences on translation of foreign operations | | **14,404** | 2,532 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | | **(367,770)** | (376,280) |

# Consolidated Statement of Profit or Loss and Other Comprehensive Income

*Year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| (Loss) profit for the year attributable to: | | | |
| Owners of the Company | | **(376,908)** | (382,988) |
| Non-controlling interests | | **(5,266)** | 4,176 |
| Loss for the year | | **(382,174)** | (378,812) |
| Total comprehensive income for the year attributable to: | | | |
| Owners of the Company | | **(367,418)** | (378,974) |
| Non-controlling interests | | **(352)** | 2,694 |
| Total comprehensive income for the year | | **(367,770)** | (376,280) |

| | Notes | 2020<br>HK$ | 2019<br>HK$ |
|---|---|---|---|
| LOSS PER SHARE | 14 | | |
| – Basic | | **(0.07)** | (0.07) |
| – Diluted | | **N/A** | N/A |

# Consolidated Statement of Financial Position

*As at 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT ASSETS | | | |
| Property, plant and equipment | 15 | **176,855** | 178,618 |
| Right-of-use assets | 16 | **73,482** | 74,368 |
| Interests in associates | 17 | **214,954** | 492,055 |
| Goodwill | 18 | **55,960** | 88,738 |
| Oil properties | 19 | **65,363** | 67,017 |
| Total non-current assets | | **586,614** | 900,796 |
| CURRENT ASSETS | | | |
| Inventories | 20 | **408** | 577 |
| Trade receivables | 21 | **54** | 574 |
| Prepayments, deposits and other receivables | 22 | **155,589** | 230,211 |
| Income tax recoverable | | **4,696** | 10,149 |
| Cash and cash equivalents | 23 | **3,781** | 4,369 |
| Total current assets | | **164,528** | 245,880 |
| CURRENT LIABILITIES | | | |
| Trade payables | 24 | **84,824** | 80,281 |
| Other payables and accruals | 25 | **124,669** | 150,196 |
| Bank and other borrowings | 26 | **443,665** | 394,379 |
| Promissory notes payable | 27 | **60,929** | 54,133 |
| Obligations under finance leases | 28 | **44** | 86 |
| Total current liabilities | | **714,131** | 679,075 |
| NET CURRENT LIABILITIES | | **(549,603)** | (433,195) |
| TOTAL ASSETS LESS CURRENT LIABILITIES | | **37,011** | 467,601 |

# Consolidated Statement of Financial Position

*As at 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| NON-CURRENT LIABILITIES | | | |
| Other payables and accruals | 25 | **–** | 18,778 |
| Bank and other borrowings | 26 | **295** | 35,230 |
| Obligations under finance leases | 28 | **33** | 110 |
| Lease liabilities | 29 | **13,498** | 13,083 |
| Assets retirement obligations | 30 | **5,207** | 5,651 |
| Deferred tax liabilities | 31 | **14,929** | 31,930 |
| Total non-current liabilities | | **33,962** | 104,782 |
| Net assets | | **3,049** | 362,819 |
| EQUITY | | | |
| Share capital | 32 | **59,893** | 57,036 |
| Reserves | | **(140,983)** | 221,292 |
| Equity attributable to owners of the Company | | **(81,090)** | 278,328 |
| Non-controlling interests | | **84,139** | 84,491 |
| Total equity | | **3,049** | 362,819 |

The consolidated financial statements on pages 63 to 149 were approved and authorised for issue by the Board of Directors on 30 March 2021 and are signed on its behalf by:

| | |
|---|---|
| **Wong Kai Ling**<br>*Director* | **Meng Fanpeng**<br>*Director* |

# Consolidated Statement of Changes in Equity

*Year ended 31 December 2020*

| | Attributable to owners of the Company | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 (Note 32) | Share premium account HK$'000 | Share option reserve HK$'000 (Note 34(a)) | Exchange fluctuation reserve HK$'000 | Capital reserve HK$'000 (Note 34(b)) | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total HK$'000 |
| As 31 December 2019 | 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** |
| Loss for the year | **–** | **–** | **–** | **–** | **–** | **–** | **(376,908)** | **(376,908)** | **(5,266)** | **(382,174)** |
| Other comprehensive income for the year | | | | | | | | | | |
| Exchange differences on translation of foreign operations | **–** | **–** | **–** | **9,490** | **–** | **–** | **–** | **9,490** | **4,914** | **14,404** |
| Total comprehensive income for the year | **–** | **–** | **–** | **9,490** | **–** | **–** | **(376,908)** | **(367,418)** | **(352)** | **(367,770)** |
| Issue of shares | **2,857** | **5,143** | **–** | **–** | **–** | **–** | **–** | **8,000** | **–** | **8,000** |
| At 31 December 2020 | **59,893** | **1,497,240** | **3,632** | **(11,174)** | **178,368** | **773,090** | **(2,582,139)** | **(81,090)** | **84,139** | **3,049** |

# Consolidated Statement of Cash Flows

*Year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM OPERATING ACTIVITIES | | | |
| Loss for the year | | **(382,174)** | (378,812) |
| Adjustments for: | | | |
| Income tax credit | 12 | **(17,011)** | (4,412) |
| Share of loss (profit) of associates | | **3,663** | (4,118) |
| Finance costs | | **51,498** | 40,747 |
| Impairment of goodwill | | **32,778** | 14,250 |
| Impairment of interests in associates | | **274,898** | 242,000 |
| Impairment of oil properties | | **–** | 18,000 |
| Impairment of prepayments, deposits and other receivables | | **2,800** | 4,474 |
| Depreciation of property, plant and equipment | | **10,898** | 11,833 |
| Depreciation of right-of-use assets | | **5,084** | 4,613 |
| Accretion expenses – oil properties | | **153** | 1,678 |
| Amortisation of oil properties | | **363** | 126 |
| Interest income | | **(6)** | (342) |
| Gain on disposal of property, plant and equipment | | **–** | (18,049) |
| Loss on disposal of oil properties | | **1,573** | 56,945 |
| Loss on deemed disposal/disposal of associates | | **–** | 7,891 |
| Gain on disposal of property, plant and equipment | | **(12)** | – |
| Gain on deemed acquisition of an associate | | **(1,651)** | – |
| Net foreign exchange losses | | **194** | 4,024 |
| Operating cash flows before movements in working capital | | **(16,952)** | 848 |
| Decrease (increase) in inventories | | **175** | (12) |
| Decrease in trade receivables | | **568** | 613,672 |
| Decrease in prepayments, deposits and other receivables | | **65,722** | 626,000 |
| Increase (decrease) in trade payables | | **9,434** | (631,286) |
| Decrease in other payables and accruals | | **(41,155)** | (646,428) |
| Utilisation of assets retirement obligations | 30 | **–** | (88) |
| Cash generated by (used in) operations | | **17,792** | (37,294) |
| Income tax paid | | **(6)** | (3,399) |
| Income tax recovered | | **5,866** | 1,837 |
| Net cash generated by (used in) operating activities | | **23,652** | (38,856) |

# Consolidated Statement of Cash Flows

*Year ended 31 December 2020*

| | Notes | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|---|
| CASH FLOWS FROM INVESTING ACTIVITIES | | | |
| Interest received | | **6** | 342 |
| Purchase of property, plant and equipment | | **–** | (94) |
| Proceeds from disposal of property, plant and equipment | | **262** | – |
| Purchase of oil properties | | **(234)** | (237) |
| Proceeds from disposal of oil properties and oil equipment | | **124** | 3,696 |
| Proceeds from disposal of assets classified as held for sale | | **–** | 30,737 |
| Net cash generated by investing activities | | **158** | 34,444 |
| CASH FLOWS FROM FINANCING ACTIVITIES | | | |
| Interest paid | 35 | **(1,356)** | (4,364) |
| New bank and other borrowings | 35 | **295** | – |
| Repayment of bank and other borrowings | 35 | **(28,140)** | – |
| Repayment of promissory notes payable | 35 | **–** | (2,500) |
| Repayment of finance leases | 35 | **(119)** | (89) |
| Repayment of lease liabilities | 35 | **(3,345)** | (13,238) |
| Proceeds from issue of shares | | **8,000** | – |
| Net cash used in financing activities | | **(24,665)** | (20,191) |
| NET DECREASE IN CASH AND CASH EQUIVALENTS | | **(855)** | (24,603) |
| Cash and cash equivalents at beginning of the year | | **4,369** | 28,857 |
| Effect of foreign exchange rate changes, net | | **267** | 115 |
| CASH AND CASH EQUIVALENTS AT END OF THE YEAR | | **3,781** | 4,369 |
| ANALYSIS OF BALANCES OF CASH AND CASH EQUIVALENTS | | | |
| Cash and cash equivalents as stated in the consolidated statement of financial position | 23 | **3,781** | 4,369 |
| | | **3,781** | 4,369 |

## 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 Room 1702, 17/F, COFCO Tower, 262 Gloucester Road, Causeway Bay, 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"), and accounting principles generally accepted in Hong Kong. For the purpose of preparation of the consolidated financial statements, information is considered material if such information is reasonably expected to influence decisions made by primary users. 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 and by the Hong Kong Companies Ordinance. 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 2020 exceed the Group's current assets at that date by HK$549,603,000, which includes the other borrowings and the promissory notes payable amounted to HK$443,665,000 and HK$60,929,000 respectively, and the Group incurred net loss of approximately HK$382,174,000 for the year ended 31 December 2020, 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 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")

### Amendments to HKFRSs that are mandatorily effective for the current year

In the current year, the Group has applied the Amendments to References to the Conceptual Framework in HKFRS Standards and the following amendments to HKFRSs issued by the HKICPA for the first time, which are mandatorily effective for the annual period beginning on or after 1 January 2020 for the preparation of the consolidated financial statements:

| | |
|---|---|
| Amendments to HKAS 1 and HKAS 8 | Definition of Material |
| Amendments to HKFRS 3 | Definition of a Business |
| Amendments to HKFRS 9, HKAS 39 and HKFRS 7 | Interest Rate Benchmark Reform |

Except as described below, the application of the Amendments to References to the Conceptual Framework in HKFRS Standards and the amendments to HKFRSs in the current year had no material impact on the Group's financial positions and performance for the current and prior years and/or on the disclosures set out in these consolidated financial statements.

***Impacts on application of Amendments to HKFRS 3 Definition of a Business***

The Group has applied the amendments for the first time in the current year. The amendments clarify that while businesses usually have outputs, outputs are not required for an integrated set of activities and assets to qualify as a business. To be considered a business, an acquired set of activities and assets must include, at a minimum, an input and a substantive process that together significantly contribute to the ability to create outputs.

The amendments remove the assessment of whether market participants are capable of replacing any missing inputs or processes and continuing to produce outputs. The amendments also introduce additional guidance that helps to determine whether a substantive process has been acquired.

In addition, the amendments introduce an optional concentration test that permits a simplified assessment of whether an acquired set of activities and assets is not a business. Under the optional concentration test, the acquired set of activities and assets is not a business if substantially all of the fair value of the gross assets acquired is concentrated in a single identifiable asset or group of similar assets. The gross assets under assessment exclude cash and cash equivalents, deferred tax assets, and goodwill resulting from the effects of deferred tax liabilities. The election on whether to apply the optional concentration test is available on transaction-by-transaction basis.

The amendments had no impact on the consolidated financial statements of the Group but may impact future periods should the Group make any acquisition.

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

### New and amendments to HKFRSs in issue but not yet effective

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

| | |
|---|---|
| HKFRS 17 | Insurance Contracts and the related Amendments[1] |
| Amendment to HKFRS 16 | Covid-19-Related Rent Concessions[4] |
| Amendments to HKFRS 3 | Reference to the Conceptual Framework[2] |
| Amendments to HKFRS 9, HKAS 39, HKFRS 7, HKFRS 4 and HKFRS 16 | Interest Rate Benchmark Reform – Phase 2[5] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKAS 1 | Classification of Liabilities as Current or Non-current[1] |
| Amendments to HKAS 16 | Property, Plant and Equipment: Proceeds before Intended Use[2] |
| Amendments to HKAS 37 | Onerous Contracts – Cost of Fulfilling a Contract[2] |
| Amendments to HKFRS Standards | Annual Improvements to HKFRS Standards 2018-2020[2] |

[1] Effective for annual periods beginning on or after 1 January 2023.
[2] Effective for annual periods beginning on or after 1 January 2022.
[3] Effective for annual periods beginning on or after a date to be determined.
[4] Effective for annual periods beginning on or after 1 June 2020.
[5] Effective for annual periods beginning on or after 1 January 2021.

The directors of the Company anticipate that the application of all other new and amendments to HKFRSs will have no material impact on the consolidated financial statements in the foreseeable future.

## 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***

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 or 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***

*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 (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 (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.

## 4 SIGNIFICANT ACCOUNTING POLICIES (continued)

### Leases (continued)

***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:

## 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 2020 is HK$55,960,000 (2019: HK$88,738,000). Impairment of goodwill amounted to HK$32,778,000 (2019: HK$14,250,000) was charged to the profit or loss in respect of the current year. Details regarding the goodwill are disclosed in note 18 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$274,898,000 (2019: HK$242,000,000) was recognised in profit or loss in respect of the current year, details of which are set out in note 17.

#### *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 2020 and 31 December 2019.

#### *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 2020 and 2019. Details regarding the deferred tax assets and deferred tax liabilities of the Group are disclosed in note 31 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/loss 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 (2019: 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 2020

| | Commodities trading HK$'000 | Oil HK$'000 | Logistics HK$'000 | Total HK$'000 |
|---|---|---|---|---|
| **Segment revenue** | | | | |
| Sales to external customers | 29,129 | 2,087 | 3,393 | 34,609 |
| **Segment loss** | (685) | (6,440) | (17,120) | (24,245) |
| Interest income | | | | 6 |
| Unallocated income | | | | 2,078 |
| Unallocated expenses | | | | (325,526) |
| Finance costs | | | | (51,498) |
| Loss before tax | | | | (399,185) |
| Income tax credit | | | | 17,011 |
| Loss for the year | | | | (382,174) |
| **Segment assets** | 101,819 | 146,730 | 345,349 | 593,898 |
| Unallocated assets | | | | 157,244 |
| Total assets | | | | 751,142 |
| **Segment liabilities** | 70,318 | 19,352 | 48,782 | 138,452 |
| Unallocated liabilities | | | | 609,641 |
| Total liabilities | | | | 748,093 |
| **Other segment information** | | | | |
| Capital expenditure allocated to segments | – | 234 | – | 234 |
| Unallocated capital expenditure | | | | – |
| Total capital expenditure | | | | 234 |
| Depreciation and amortisation allocated to segments | – | 1,872 | 11,807 | 13,679 |
| Unallocated depreciation and amortisation | | | | 2,666 |
| Total depreciation and amortisation | | | | 16,345 |
| Impairment loss allocated to segments: | | | | |
| Interests in associates | – | – | 274,898 | 274,898 |
| Goodwill | 32,778 | – | – | 32,778 |
| Oil properties | – | – | – | – |
| Prepayment, deposits and other receivables | 2,800 | – | – | 2,800 |
| Total impairment loss recognised | 35,578 | – | 274,898 | 310,476 |

## 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)

### Geographical information

*(a) Revenue from external customers*

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| PRC | **32,522** | 5,521,152 |
| Other countries | **2,087** | 1,569 |
| | **34,609** | 5,522,721 |

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

*(b) Non-current assets*

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| PRC | **242,288** | 520,195 |
| USA | **73,412** | 75,987 |
| Other countries | **214,954** | 215,876 |
| | **530,654** | 812,058 |

The above non-current assets information is based on the location of the assets and exclude goodwill of HK$55,960,000 (2019: HK$88,738,000).

### Information about major customers

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

| | Revenue generated from | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|---|
| Customer A | Commodities trading | **29,128** | 2,371,154 |

## 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:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Revenue from: | | |
| Sales of goods recognised at a point in time | **31,270** | 5,519,831 |
| Rendering of services recognised over time | **3,339** | 2,890 |
| | **34,609** | 5,522,721 |

### Other income and gains

An analysis of other income and gains is as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Bank interest income | **6** | 342 |
| Government grants receipt* | **1,284** | 1,346 |
| Gain on disposal of property, plant and equipment, net | **–** | 18,049 |
| Sundry income | **1,923** | 1,669 |
| | **3,213** | 21,406 |

* Government grants and subsidies represent refund of PRC value-added tax and other taxes paid by the Group in previous year and government subsidy for the Employment Support Scheme by the Hong Kong Government under COVID-19. There are no unfulfilled conditions or contingencies attached to these grants and subsidies.

## 8 FINANCE COSTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Interest expenses, net of reimbursement on borrowings, on: | | |
| Bank loans, overdrafts and other loans | **43,792** | 34,982 |
| Finance leases | **2** | 5 |
| Lease liabilities | **908** | 1,127 |
| Promissory notes payable | **6,796** | 4,633 |
| | **51,498** | 40,747 |

## 9 LOSS BEFORE TAX

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

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cost of inventories sold* | **31,882** | 5,486,377 |
| Auditors' remuneration | | |
| Audit services | **768** | 900 |
| Other services | **110** | – |
| | **878** | 900 |
| Staff costs (excluding directors' remuneration) (note 10) | | |
| Salaries and allowances | **7,152** | 10,032 |
| Retirement benefit costs | **764** | 496 |
| | **7,916** | 10,528 |
| Depreciation of property, plant and equipment | **10,898** | 11,833 |
| Depreciation of right-of-use assets | **5,084** | 4,613 |
| Accretion expenses – oil properties | **153** | 1,678 |
| Amortisation of oil properties | **363** | 126 |
| Loss on disposal of oil properties and property, plant and equipment, net | **1,561** | – |
| Lease payments under short term leases | **9** | 313 |
| Foreign exchange losses, net | **194** | 5 |

* Cost of inventories sold includes depreciation charges of property, plant and equipment amounted to approximately HK$1,030,000 (2019: HK$2,243,000) which is also included in the respective total amount disclosed separately above.

## 10 DIRECTORS' AND CHIEF EXECUTIVE'S REMUNERATION

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

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| **Directors' remuneration** | | |
| Fees | **829** | 1,006 |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **1,265** | 1,936 |
| Pension scheme contributions | **10** | 8 |
| | **2,104** | 2,950 |
| **Chief executive's remuneration** | | |
| Fees | **–** | – |
| Other emoluments: | | |
| Salaries, allowances and benefits in kind | **–** | 1,122 |
| Pension scheme contributions | **–** | 12 |
| | **–** | 1,134 |
| | **2,104** | 4,084 |

## 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 |
|---|---|---|---|---|
| **2020** | | | | |
| Wang Xiusong[2] | **–** | **–** | **–** | **–** |
| Cai Jianjun[3] | **–** | **806** | **–** | **806** |
| Meng Fanpeng[4] | **–** | **459** | **10** | **469** |
| Zhang Rui[5] | **–** | **–** | **–** | **–** |
| | **–** | **1,265** | **10** | **1,275** |
| **2019** | | | | |
| Zhao Cheng Shu[1] | – | 198 | 8 | 206 |
| Wang Xiusong[2] | – | – | – | – |
| Cai Jianjun[3] | – | 1,738 | – | 1,738 |
| Zhang Rui[5] | – | – | – | – |
| | – | 1,936 | 8 | 1,944 |

1 Mr. Zhao Cheng Shu retired as executive director of the Company at the annual general meeting held on 4 June 2019.

2 Mr. Wang Xiusong resigned as executive director of the Company with effect from 13 May 2020.

3 Mr. Cai Jianjun resigned as executive director of the Company with effect from 5 June 2020. Mr. Cai Jianjun was also the chairman of the board and the chairman of executive committee with effect from 25 January 2019 and resigned as executive director and chairman with effect from 5 June 2020.

4 Mr. Meng Fanpeng was appointed as executive director of the Company with effect from 22 June 2020.

5 Mr. Zhang Rui resigned as executive director of the Company with effect from 22 June 2020.

### (b) Non-executive director

| | Fees | |
|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 |
| Qin Bo[6] | **–** | – |
| Zhou Hao[7] | **–** | – |
| Cai Jianjun[8] | **–** | 116 |

6 Mr. Qin Bo was appointed as non-executive director of the Company with effect from 2 June 2020.

7 Mr. Zhou Hao resigned as non-executive director of the Company with effect from 2 June 2020.

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

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

### (c) Independent non-executive directors

| | Fees | |
|---|---|---|
| | 2020<br>HK$'000 | 2019<br>HK$'000 |
| Choy So Yuk | 150 | 150 |
| Leung Yuen Wing | 150 | 150 |
| Wu Zhao | 150 | 150 |
| Zhu Dengkai | 79 | 150 |
| Liu Wei | 150 | 150 |
| Zou Mingwu | 150 | 140 |
| | 829 | 890 |

### (d) Chief executive

| | Fees<br>HK$'000 | Salaries, allowances and benefits in kind<br>HK$'000 | Pension scheme contributions<br>HK$'000 | Total<br>HK$'000 |
|---|---|---|---|---|
| **2020** | | | | |
| Fang Gang[7] | | | | |
| (Chief Executive Officer) | – | 830 | 10 | 840 |
| **2019** | | | | |
| Fang Gang[7] | | | | |
| (Chief Executive Officer) | – | 1,122 | 12 | 1,134 |

[7] Fang Gang was appointed on 11 April 2019 and resigned on 15 July 2020.

There was no arrangement under which a director waived or agreed to waive any remuneration during the year (2019: 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 (2019: Nil).

## 11 FIVE HIGHEST PAID EMPLOYEES

The five highest paid employees for the year included one director (2019: one director), details of whose remuneration are set out in note 10 above. Details of the remuneration of the remaining four (2019: three) highest paid employees, who are neither a director nor the chief executive of the Company, are as follows:

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Salaries, allowances and benefits in kind | **4,230** | 3,387 |
| Retirement scheme contributions | **65** | 51 |
| | **4,295** | 3,438 |

The emoluments were within the following bands:

| | **Number of individuals** | |
|---|---|---|
| | **2020** | 2019 |
| HK$Nil to HK$1,000,000 | **3** | 1 |
| HK$1,000,001 to HK$1,500,000 | **1** | 2 |
| | **4** | 3 |

## 12 INCOME TAX CREDIT

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Provision for the year | | |
| – PRC corporate income tax | **6** | 2,377 |
| Under (over) provision in prior years | **58** | (6,789) |
| Current tax charge (credit) | **64** | (4,412) |
| Deferred tax credit (Note 31) | **(17,075)** | – |
| Income tax credit for the year | **(17,011)** | (4,412) |

Hong Kong profits tax has been provided at the rate of 16.5% (2019: 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% (2019: 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% (2019: 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 | % |
| **2020** | | | | | | | | |
| Loss before tax | (371,067) | | (17,874) | | (10,244) | | (399,185) | |
| Tax at the statutory tax rate | (61,226) | 16.5 | (4,468) | 25.0 | (2,151) | 21.0 | (67,845) | 17.0 |
| Loss attributable to associates | (604) | | – | | – | | (604) | |
| Income not subject to tax | (3,852) | | (136) | | (88) | | (4,076) | |
| Expenses not deductible for tax | 51,806 | | 4,340 | | 3,098 | | 59,244 | |
| Reversal of deductible temporary differences | – | | – | | (17,075) | | (17,075) | |
| Taxable temporary differences not recognised | – | | 270 | | (859) | | (589) | |
| Tax losses not recognised | 13,876 | | – | | – | | 13,876 | |
| Under(over) provision in prior year | – | | 58 | | – | | 58 | |
| Income tax credit | – | | 64 | | (17,075) | | (17,011) | |

| | 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) | |

## 13 DIVIDENDS

No interim dividend was declared for the current year (2019: 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 2020 (2019: Nil).

## 14 LOSS PER SHARE

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

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| **Loss** | | |
| Loss for the purpose of basic loss per share | | |
| Loss for the year attributable to owners of the Company | **(376,908)** | (382,988) |

| | **2020**<br>**'000** | 2019<br>'000 |
|---|---|---|
| **Number of shares** | | |
| Weighted average number of ordinary shares for the purpose of basic loss per share | **5,712,203** | 5,703,616 |

Diluted loss per share for the year ended 31 December 2020 and 31 December 2019 are not presented as there is no potential ordinary shares in issue for each of these years.

## 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 | Total HK$'000 |
|---|---|---|---|---|---|---|---|
| **31 December 2020** | | | | | | | |
| At 1 January 2020 | | | | | | | |
| 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 |
| Carrying amount at 1 January 2020 | 145,029 | 3,347 | 8,970 | 20,777 | 164 | 331 | 178,618 |
| Disposals | – | – | (250) | – | – | – | (250) |
| Depreciation provided for the year | (7,290) | (338) | (1,462) | (1,761) | (47) | – | (10,898) |
| Exchange realignment | 8,518 | 185 | (525) | 1,184 | 7 | 16 | 9,385 |
| Carrying amount at 31 December 2020 | 146,257 | 3,194 | 6,733 | 20,200 | 124 | 347 | 176,855 |
| At 31 December 2020 | | | | | | | |
| Cost | 172,812 | 7,610 | 14,479 | 27,517 | 442 | 865 | 223,725 |
| Accumulated depreciation and impairment | (26,555) | (4,416) | (7,746) | (7,317) | (318) | (518) | (46,870) |
| Carrying amount | 146,257 | 3,194 | 6,733 | 20,200 | 124 | 347 | 176,855 |

## 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 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 |
| Carrying amount at 1 January 2019 | 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 | – | (42) | (8,891) | – | – | – | – | (8,933) |
| Depreciation provided for the year | (7,003) | (487) | (2,260) | (2,024) | (59) | – | – | (11,833) |
| Exchange realignment | (1,944) | (60) | (658) | (373) | (3) | (5) | – | (3,043) |
| Carrying amount at 31 December 2019 | 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)

Note: The Group's leasehold land and buildings at 31 December 2020 and 31 December 2019 represent buildings as follows:

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Buildings situated on leasehold land: | | |
| In the PRC | 144,940 | 143,659 |
| In the USA | 1,317 | 1,370 |
| | 146,257 | 145,029 |

## 16 RIGHT-OF-USE ASSETS

| | Leased land<br>HK$'000<br>(Note a) | Leased properties<br>HK$'000<br>(Note b) | Total<br>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 and 1 January 2020 | 58,962 | 15,406 | 74,368 |
| Depreciation for the year ended 31 December 2020 | (1,772) | (3,312) | (5,084) |
| Exchange realignment | 3,461 | 737 | 4,198 |
| Carrying amount at 31 December 2020 | 60,651 | 12,831 | 73,482 |

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 INTERESTS IN ASSOCIATES

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Cost of investments in unlisted associates | **1,234,691** | 1,234,691 |
| Share of post-acquisition (losses) profits and reserves | **(815)** | 1,260 |
| Share of reserve of an associate | **–** | 128 |
| Impairment loss recognised | **(1,018,922)** | (744,024) |
| | **214,954** | 492,055 |

Included in cost of investments in unlisted associates are goodwill arising on acquisition amounted to HK$832,433,000 (2019: 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 2020 | Equity interest attributable to the Group 2019 | Principal activities |
|---|---|---|---|---|---|
| RockEast Energy Corporation ("RockEast") | Canada | CAD30,364,992 | **29.95%** | 28.19% | 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 |

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

## 17 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:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Balance at 1 January | **492,055** | 737,846 |
| Share of post-acquisition (losses) profits for the year | **(3,663)** | 4,118 |
| Share of reserve of an associate | **–** | (40) |
| Impairment loss recognised (Note a) | **(274,898)** | (242,000) |
| Deemed acquisition of an associate (Note c) | **1,651** | – |
| Deemed disposal of associates (Note b) | **–** | (7,891) |
| Exchange realignment | **(191)** | 22 |
| Balance at 31 December | **214,954** | 492,055 |

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 additional impairment loss recognised in profit and loss in respect of the year amounted to a total of approximately HK$274,000,000 (comparing impairment loss of HK$53,375,000 and HK$221,523,000 on investments in Mongolia Logistics and Wulanchabu respectively). These impairments are due to the predicted deterioration in future economy for a period of time in light of the serious impact caused by the COVID-19 pandemic, leading to a prudent approach on future operations. Also, additional investments will require for the associates located in Inner Mongolia to initiate and expand their operations. In view of current business environment and the recoverability of economy from the COVID-19 pandemic, it is unpredictable to determine the future sources of funds. Combining the considerations above, the values of the investments in those associates were fully impaired to reflect these uncertainties.

For the prior year ended 31 December 2019, impairment loss recognised on investments in Mongolia Logistics and Wulanchabu amounted to HK$46,000,000 and HK$196,000,000 respectively, which were based on their estimated recoverable amount on value in use calculation by reference to their business valuation conducted for that year 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% and 17.67% respectively and the growth rate used to extrapolate the cash flows of Mongolia Logistics and Wulanchabu beyond the five-year period are both at 3%. 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 was recognised in profit or loss in respect of the year.

(b) During the year ended 31 December 2019, 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 arising from the dilution of the Group's equity interest in RockEast was recognised in profit or loss in respect of the current year.

(c) During the current year, RockEast issued additional common shares to the Group, which resulted in the increase in the Group's equity interest in RockEast from 28.19% to 29.95%. The gain on deemed acquisition amounted to HK$1,651,000 (2019: Nil) arising from the increase of the Group's equity interest in RockEast was recognised in profit or loss in respect of the current year.

## 17 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 | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Non-current assets | **521,767** | 553,012 |
| Current assets | **14,620** | 26,524 |
| Current liabilities | **(64,494)** | (39,097) |
| Non-current liabilities | **(74,953)** | (115,448) |
| Net assets | **396,940** | 424,991 |
| Revenue | **64,204** | 113,088 |
| (Loss) profit before tax | **(7,954)** | 31,558 |
| Income tax expense | **–** | (5,729) |
| (Loss) profit for the year | **(7,954)** | 25,829 |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **(7,954)** | 25,829 |
| Reconciliation to the Group's interest in the associates: | | |
| Proportion of the Group's ownership | **29.95%** | 28.19% |
| Group's share of net assets of the associates, excluding goodwill | **118,883** | 119,805 |
| Goodwill on acquisition | **408,095** | 408,095 |
| Less: Accumulated impairment | **(312,024)** | (312,024) |
| Carrying amount of the investment | **214,954** | 215,876 |

## 17 INTERESTS IN ASSOCIATES (continued)

| | Mongolia Logistics | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Non-current assets | **297,268** | 277,446 |
| Current assets | **5,114** | 3,067 |
| Current liabilities | **(298,103)** | (272,970) |
| Non-current liabilities | **(20)** | – |
| Net assets | **4,259** | 7,543 |
| Revenue | **4,452** | 3,589 |
| Loss before tax | **(3,285)** | (8,111) |
| Income tax expense | **–** | – |
| Loss for the year | **(3,285)** | (8,111) |
| Other comprehensive income | **–** | – |
| Total comprehensive income | **(3,285)** | (8,111) |
| 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 | **1,661** | 2,942 |
| Goodwill on acquisition | **132,714** | 132,714 |
| Less: Accumulated impairment | **(134,375)** | (81,000) |
| Carrying amount of the investment | **–** | 54,656 |

## 17 INTERESTS IN ASSOCIATES (continued)

| | Wulanchabu | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Non-current assets | **635,802** | 635,802 |
| Current assets | **67,702** | 67,702 |
| Current liabilities | **(1,256)** | (1,256) |
| Non-current liabilities | **–** | – |
| Net assets | **702,248** | 702,248 |
| 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** | 280,899 |
| Goodwill on acquisition | **291,624** | 291,624 |
| Less: Accumulated impairment | **(572,523)** | (351,000) |
| Carrying amount of the investment | **–** | 221,523 |

## 18 GOODWILL

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| At 1 January | | |
| Cost | **282,375** | 282,375 |
| Accumulated impairment | **(193,637)** | (179,387) |
| Carrying amount | **88,738** | 102,988 |
| Carrying amount at 1 January | **88,738** | 102,988 |
| Impairment loss recognised for the year | **(32,778)** | (14,250) |
| Carrying amount at 31 December | **55,960** | 88,738 |
| At 31 December | | |
| Cost | **282,375** | 282,375 |
| Accumulated impairment | **(226,415)** | (193,637) |
| Carrying amount | **55,960** | 88,738 |

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

| | Oil CGU | Logistics CGU attributable to Hai Hui | Logistics CGU attributable to Tianjin Ruiqi Group | Total |
|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| As at 31 December 2020 | | | | |
| Goodwill before impairment | **121,182** | **50,959** | **110,234** | **282,375** |
| Impairment of goodwill | **(121,182)** | **(50,959)** | **(54,274)** | **(226,415)** |
| Carrying amount at 31 December 2020 | **–** | **–** | **55,960** | **55,960** |
| 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 |

### 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.

## 18 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 in prior years.

The directors of the Company conducted assessment of the recoverable amount of Tianjin Ruiqi Group with reference to the business 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 19.2% (2019: 20.5%) and the growth rate used to extrapolate the cash flows of Tianjin Ruiqi Group beyond the five-year period is 3% (2019: 3%). Based on the assessment, the directors considered it appropriate to recognise additional impairment of goodwill relating to Tianjin Ruiqi Group amounted to HK$32,778,000 (2019: HK$10,000,000), as a result of the expected downward adjustment of the profitability of the subsidiary, which was charged to profit or loss in respect of the year.

## 19 OIL PROPERTIES

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| At 1 January | | |
| Cost | **267,985** | 315,959 |
| Accumulated amortisation and impairment | **(200,968)** | (170,784) |
| Carrying amount | **67,107** | 145,175 |
| At 1 January, cost less accumulated amortisation and impairment | **67,107** | 145,175 |
| Additions, at cost | **234** | 237 |
| Disposals | **(2,269)** | (59,746) |
| Amortisation for the year | **(363)** | (126) |
| Impairment loss recognised in profit or loss | **–** | (18,000) |
| Exchange realignment | **654** | (523) |
| At 31 December, cost less accumulated amortisation and impairment | **65,363** | 67,017 |
| At 31 December | | |
| Cost | **265,391** | 267,985 |
| Accumulated amortisation and impairment | **(200,028)** | (200,968) |
| Carrying amount | **65,363** | 67,017 |

## 19 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, subsidiaries of the Company. 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$2,269,000 (2019: HK$59,746,000) were disposed of, which gave rise to a loss on disposal of HK$1,573,000 (2019: HK$56,945,000) 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 24.2% (2019: 20.3%) and the growth rate used to extrapolate the cash flows of the oil properties beyond the five-year period is 2.3% (2019: 2.3%). Based on the assessments, the directors of the Company consider it appropriate to recognise an impairment loss of approximately HK$Nil for the current year (2019: HK$18,000,000).

## 20 INVENTORIES

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Finished goods | **408** | 577 |
| | **408** | 577 |

## 21 TRADE RECEIVABLES

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Trade receivables | **100,563** | 101,051 |
| Less: Impairment of trade receivables | **(100,509)** | (100,477) |
| | **54** | 574 |

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.

## 21 TRADE RECEIVABLES (continued)

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Not more than 30 days | **54** | 574 |
| 31-60 days | **–** | 13 |
| 61-90 days | **–** | 40 |
| 91-365 days | **–** | 59 |
| Over one year | **100,509** | 100,365 |
| | **100,563** | 101,051 |

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Not past due | **54** | 574 |
| | **54** | 574 |

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 January | **100,477** | 101,590 |
| Exchange realignment | **32** | (1,113) |
| At 31 December | **100,509** | 100,477 |

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.

## 22 PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Deposits for purchases of goods (Note (a)) | **119,925** | 212,283 |
| Prepayments and other deposits | **89** | 122 |
| Other receivables (Note (b)) | **35,575** | 17,806 |
| | **155,589** | 230,211 |

Notes:

(a) The deposits at 31 December 2020 amounted to HK$119,925,000 (2019: HK$212,283,000) 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 additional impairment losses amounted to HK$2,800,000 (2019: HK$4,474,000) 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$26,715,000 (2019: HK$53,125,000).

(b) As at 31 December 2020 and 2019, deposits and other receivables were substantially denominated in the functional currencies of the relevant group entities.

## 23 CASH AND CASH EQUIVALENTS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Cash and bank balances | **3,781** | 4,369 |
| Cash and cash equivalents | **3,781** | 4,369 |

At the end of the reporting period, the cash and bank balances of the Group denominated in Renminbi ("RMB") amounted to approximately HK$1,161,000 (2019: HK$1,018,000). 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 2020, the Group's cash and cash equivalents to the extent of HK$187,000 (2019: HK$1,706,000) were denominated in currencies other than the functional currencies of the relevant group entities.

## 24 TRADE PAYABLES

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Trade payables | **84,824** | 80,281 |

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

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Not more than 30 days | **107** | 79,767 |
| 31-60 days | **33** | 61 |
| 61-90 days | **7** | 1 |
| 91-365 days | **9** | 340 |
| Over one year | **84,668** | 112 |
| | **84,824** | 80,281 |

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

## 25 OTHER PAYABLES AND ACCRUALS

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Customer advances | **25,393** | 74,380 |
| Other payables | **71,711** | 69,490 |
| Value-added tax and on other taxes payables | **3,622** | 4,808 |
| Accrued interest on bank and other borrowings | **6,872** | 6,458 |
| Lease liabilities (Note 29) | **590** | 2,572 |
| Other accrued charges | **16,481** | 11,266 |
| | **124,669** | 168,974 |
| Less: Non-current portion | **–** | (18,778) |
| Current portion included in current liabilities | **124,669** | 150,196 |

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

As at 31 December 2020 and 2019, 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:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Revenue recognised that was included in the contract liabilities balance at the beginning of the year | **29,129** | 742,973 |

## 26 BANK AND OTHER BORROWINGS

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| Secured bank loans repayable within one year or on demand | – | 27,966 |
| Unsecured other borrowings repayable within one year | 443,665 | 7,264 |
| Unsecured other borrowings repayable more than one year but within two years | 295 | 394,379 |
| Total borrowings | 443,960 | 429,609 |
| Analysed for reporting purposes as: | | |
| Current liabilities | 443,665 | 394,379 |
| Non-current liabilities | 295 | 35,230 |
| | 443,960 | 429,609 |

Included in unsecured other borrowings are the previously known as the convertible bonds with the principal amount of HK$300,000,000, 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 conversion rights under the convertible bonds lapsed upon the expiration of the bond's maturity period. The aggregate outstanding balance of the bonds together with interest thereon amounted to HK$408,435,000 (2019: HK$366,413,000) was included in bank and other borrowings as at 31 December 2020.

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 at 31 December 2019 were secured by corporate guarantees given by the Company and certain independent third parties.

As 31 December 2020 and 2019, bank and other borrowings were substantially denominated in the functional currencies of the relevant group entities.

## 27 PROMISSORY NOTES PAYABLE

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| At 1 January | **54,133** | 52,000 |
| Interest expenses charged (Note 8) | **6,796** | 4,633 |
| Repayment during the year | **–** | (2,500) |
| At 31 December | **60,929** | 54,133 |
| Analysed for reporting purposes as: | | |
| Current liabilities | **60,929** | 54,133 |

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 (2019: 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 as from 18 December 2017; 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$Nil (2019: HK$2,500,000) to the promissory note holder, which may constitute a default under the Settlement Agreement. Accordingly, the promissory notes payable are wholly regarded as current liabilities at 31 December 2020 presented in the consolidated statement of financial position.

## 28 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 | |
|---|---|---|---|---|
| | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 |
| Within one year | **45** | 88 | **44** | 86 |
| In the second to fifth years, inclusive | **33** | 110 | **33** | 110 |
| | **78** | 198 | **77** | 196 |
| Less: Future finance charges | **(1)** | (2) | **–** | – |
| Present value of lease obligations | **77** | 196 | **77** | 196 |
| Less: Amount due for settlement within 12 months | | | **(44)** | (86) |
| Amount due for settlement after 12 months | | | **33** | 110 |

## 29 LEASE LIABILITIES

| | **2020 HK$'000** | 2019 HK$'000 |
|---|---|---|
| Lease liabilities payable: | | |
| Within one year | **590** | 2,572 |
| Within a period of more than one year but not more than two years | **294** | 369 |
| Within a period of more than two years but less than five years | **1,007** | 1,225 |
| More than five years | **12,197** | 11,489 |
| Total lease liabilities payable | **14,088** | 15,655 |
| Less: Amount due for settlement within twelve months included in other payables and accruals (Note 25) | **(590)** | (2,572) |
| Amount due for settlement after twelve months shown under non-current liabilities | **13,498** | 13,083 |

## 30 ASSETS RETIREMENT OBLIGATIONS

| | **2020** **HK$'000** | 2019 HK$'000 |
|---|---|---|
| At 1 January | **5,651** | 12,053 |
| Utilised for the year | **–** | (88) |
| Accretion expenses recognised | **153** | 1,678 |
| Eliminated upon disposal of oil properties | **(572)** | (7,966) |
| Exchange realignment | **(25)** | (26) |
| At 31 December | **5,207** | 5,651 |

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 4.75% (2019: 5.25%).

## 31 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 2019 | 29,417 | 2,660 | 32,077 |
| Deferred tax credited to profit or loss (Note 12) | – | – | – |
| Exchange realignment | (208) | 61 | (147) |
| At 31 December 2019 and 1 January 2020 | **29,209** | **2,721** | **31,930** |
| Deferred tax credited to profit or loss (Note 12) | **(17,076)** | **–** | **(17,076)** |
| Exchange realignment | **156** | **(81)** | **75** |
| At 31 December 2020 | **12,289** | **2,640** | **14,929** |

## 31 DEFERRED TAX LIABILITIES (continued)

The Group has unused tax losses arising in Hong Kong of approximately HK$13,876,000 (2019: HK$6,244,000) that are available indefinitely for offsetting against future taxable profits of the companies in which the losses arose. Deferred tax assets have not been recognised in respect of these losses as they have arisen in subsidiaries that have been loss-making for some time and it is not considered probable that taxable profits will be available against which the tax losses can be utilised.

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

## 32 SHARE CAPITAL

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Authorised: | | |
| 200,000,000,000 ordinary shares of HK$0.01 each | **2,000,000** | 2,000,000 |
| Issued and fully paid: | | |
| 5,989,329,877 (2019: 5,703,615,592) ordinary shares of HK$0.01 each | **59,893** | 57,036 |

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

On 21 December 2020, the Company issued 285,714,285 new shares to an independent third party at the subscription price of HK$0.028 per share, which gave rise to proceeds of approximately HK$8,000,000 received by the Company.

## 33 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 7.20% of the issued share capital of the Company as at 31 December 2020 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.

## 34 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 67.

### (a) Share option reserve

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Share option reserve attributable to | | |
| – the Company | – | – |
| – associates | 3,632 | 3,632 |
| | 3,632 | 3,632 |

Details of the share options granted by the Company are set out in note 33.

### (b) Capital reserve

Capital reserve is analysed as follows:

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Statutory surplus reserve (Note i) | 178,368 | 178,368 |
| | 178,368 | 178,368 |

***Movements during the year***

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Balance at 1 January | 178,368 | 178,168 |
| Transferred from accumulated losses | – | 200 |
| Balance at 31 December | 178,368 | 178,368 |

(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.

## 35 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 2020 and 31 December 2019, 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) | Promissory notes payable | Obligations under finance leases | Lease liabilities | Bank and other borrowings | Total |
|---|---|---|---|---|---|---|
| | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **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 and 1 January 2020** | **6,458** | **54,133** | **196** | **15,655** | **429,609** | **506,051** |
| Financing cash inflow (outflows) | **(1,356)** | **–** | **(119)** | **(3,345)** | **(27,845)** | **(32,165)** |
| Finance costs for the year | **1,770** | **6,796** | **2** | **908** | **42,022** | **51,498** |
| Exchange realignment | **–** | **–** | **(2)** | **870** | **174** | **1,042** |
| **As at 31 December 2020** | **6,872** | **60,929** | **77** | **14,088** | **443,960** | **525,926** |

## 36 RELATED PARTY TRANSACTIONS

### Compensation of key management personnel of the Group

| | 2020 HK$'000 | 2019 HK$'000 |
|---|---|---|
| Short term employee benefits | 4,147 | 6,557 |
| Post-employment benefits | 47 | 51 |
| Total compensation to key management personnel | 4,194 | 6,608 |

## 37 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 2020

| | Financial assets at amortised cost HK$'000 |
|---|---|
| Trade and bills receivables | 54 |
| Financial assets included in prepayments, deposits and other receivables | 155,500 |
| Cash and cash equivalents | 3,781 |
| | 159,335 |

## 37 FINANCIAL INSTRUMENTS BY CATEGORY (continued)

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 |

Financial liabilities at 31 December 2020

| | **Financial liabilities at amortised cost HK$'000** |
|---|---|
| Trade payables | **84,824** |
| Financial liabilities included in other payables and accruals | **124,669** |
| Bank and other borrowings | **443,960** |
| Promissory notes payable | **60,929** |
| Obligations under finance leases | **77** |
| Lease liabilities | **14,088** |
| | **728,547** |

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 |

## 38 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.

## 39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

The Group's financial instruments include promissory notes payable, bank and other borrowings and cash and bank balances. The main purpose of these financial instruments is to raise finance for the Group's operations. The Group has various other financial assets and liabilities such as trade receivables, deposits and other receivables, trade payables, other payables and accruals, obligations under finance leases, and lease liabilities 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 2020 would increase/decrease by HK$6,000 (2019: loss for the year would increase/decrease by HK$204,000). This is mainly attributable to the Group's exposure to interest rates on its variable rate bank borrowings.

## 39 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$'000** |
|---|---|---|
| 31 December 2020 | | |
| If HK$ weakens against RMB | **5** | **10** |
| If HK$ strengthens against RMB | **(5)** | **(10)** |
| If HK$ weakens against USD | **0.5** | **735** |
| If HK$ strengthens against USD | **(0.5)** | **(735)** |

| | 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) |

## 39 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 2020** | | | | | | |
| Expected loss rate | **0%–5%** | **0%–10%** | **0%–20%** | **0%–60%** | **80%–100%** | |
| Gross carrying amount (HK$'000) | **54** | **–** | **–** | **–** | **100,509** | **100,563** |
| Loss allowance (HK$'000) | **–** | **–** | **–** | **–** | **100,509** | **100,509** |
| **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 |

The above expected credit losses also incorporated forward looking information for both years ended 31 December 2020 and 31 December 2019.

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.

## 39 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 2020 are regarded non-performing and additional impairment losses for the year amounted to HK$2,800,000 (2019: HK$4,474,000) 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.

## 39 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 2020, the Group had a concentration of credit risk given that the top 5 customers account for 96% (2019: 92%) 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 | **2020 HK'$000** | 2019 HK$'000 |
|---|---|---|---|
| Cash at banks and bank deposits | A1-A3 | **3,165** | 4,263 |

The rating represents long-term credit rating provided by Moody's, an internationally recognised credit rating agency. A rating within the "A1 – A3" 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.

## 39 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$'000 | Carrying amount at 31 December 2020 HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2020** | | | | |
| **Non-derivative assets** | | | | |
| Trade receivables | 54 | – | 54 | 54 |
| Financial assets included in prepayments, deposits and other receivables | 155,500 | – | 155,500 | 155,500 |
| Cash and cash equivalents | 3,781 | – | 3,781 | 3,781 |
| | 159,335 | – | 159,335 | 159,335 |

## 39 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$'000 | Carrying amount at 31 December 2020 HK$'000 |
|---|---|---|---|---|
| **As at 31 December 2020** | | | | |
| **Non-derivative financial liabilities** | | | | |
| Trade payables | 84,824 | – | 84,824 | 84,824 |
| Financial liabilities included in other payables and accruals | 124,669 | – | 124,669 | 124,669 |
| Bank and other borrowings | 443,665 | 48,803 | 492,468 | 443,960 |
| Promissory notes payable | 60,929 | 7,311 | 68,240 | 60,929 |
| Obligations under finance leases | 45 | 33 | 78 | 77 |
| Lease liabilities | 13,498 | 1,300 | 14,798 | 14,088 |
| | 727,630 | 57,447 | 785,077 | 728,547 |

## 39 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 assets | | | | |
| Trade 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 |

| | 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 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 |

## 39 FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (continued)

### 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:

| | **2020**<br>**HK$'000** | 2019<br>HK$'000 |
|---|---|---|
| Bank and other borrowings | **443,960** | 429,609 |
| Promissory notes payable | **60,929** | 54,133 |
| Less: Cash and bank balances | **(3,781)** | (4,369) |
| Net debt | **501,108** | 479,373 |
| Equity attributable to owners of the Company | **(81,090)** | 278,328 |
| Total equity and net debt | **420,018** | 757,701 |
| Gearing ratio | **119%** | 63% |

## 40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY

| | 2020<br>HK$'000 | 2019<br>HK$'000 |
|---|---|---|
| NON-CURRENT ASSETS | | |
| Investments in subsidiaries | – | – |
| Amounts due from subsidiaries | 174,637 | 482,313 |
| Total non-current assets | 174,637 | 482,313 |
| CURRENT ASSETS | | |
| Prepayments, deposits and other receivables | 1,305 | 1,014 |
| Amounts due from subsidiaries | 211,142 | 211,740 |
| Cash and cash equivalents | 2,446 | 570 |
| Total current assets | 214,893 | 213,324 |
| CURRENT LIABILITIES | | |
| Other payables and accruals | 52,932 | – |
| Bank and other borrowings | 443,665 | 366,413 |
| Promissory notes payable | 60,929 | 54,133 |
| Amounts due to subsidiaries | 9,456 | 8,292 |
| Total current liabilities | 566,982 | 428,838 |
| NET CURRENT LIABILITIES | (352,089) | (215,514) |
| NON-CURRENT LIABILITIES | | |
| Other payables and accruals | – | 18,778 |
| Bank and other borrowings | – | 35,230 |
| Total non-current liabilities | – | (54,008) |
| NET ASSETS | (177,452) | 212,791 |
| EQUITY | | |
| Share capital | 59,893 | 57,036 |
| Reserves (Note) | (237,345) | 155,755 |
| TOTAL EQUITY | (177,452) | 212,791 |

The statement of financial position of the Company was approved and authorised for issue by the board of directors on 30 March 2021 and is signed on its behalf by:

**Wong Kai Ling**
*Director*

**Meng Fanpeng**
*Director*

## 40 STATEMENT OF FINANCIAL POSITION OF THE COMPANY (continued)

Note: Movements of the Company's reserves are as follows:

| | Share premium account HK$'000 | Capital reserve HK$'000 | Contributed surplus HK$'000 | Accumulated losses HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|
| 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 and at 1 January 2020 | **1,492,097** | **160,670** | **773,090** | **(2,270,102)** | **155,755** |
| Loss for the year and total comprehensive income for the year | **–** | **–** | **–** | **(398,243)** | **(398,243)** |
| Issue of shares | **5,143** | **–** | **–** | **–** | **5,143** |
| At 31 December 2020 | **1,497,240** | **160,670** | **773,090** | **(2,668,345)** | **(237,345)** |

## 41 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 | | | | Principal activities |
|---|---|---|---|---|---|---|---|
| | | | Direct 2020 | Indirect 2020 | Direct 2019 | Indirect 2019 | |
| Super Energy Limited | Hong Kong | HK$1 | **100%** | **–** | 100% | – | Administrative function |
| Earning Power Inc. | British Virgin Islands ("BVI") | US$2 | **–** | **100%** | – | 100% | Investment holding |
| City Joint Investments Limited | BVI | US$1 | **100%** | **–** | 100% | – | Investment holding |

## 41 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 2020 | Indirect 2020 | Direct 2019 | Indirect 2019 | Principal activities |
|---|---|---|---|---|---|---|---|
| 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.

* 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.

## 41 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 | | (Loss)/profit allocated to non-controlling interests | | Accumulated non-controlling interests | |
|---|---|---|---|---|---|---|---|
| | | **2020** | 2019 | **2020 HK$'000** | 2019 HK$'000 | **2020 HK$'000** | 2019 HK$'000 |
| Qian'an Logistics | PRC | **30%** | 30% | **(5,266)** | 4,176 | **84,139** | 84,491 |

Summarised financial information in respect of the Company's subsidiaries at 31 December 2020 and 2019 that have material non-controlling interests is set out below. The summarised financial information below represents amounts before intragroup eliminations.

## 41 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 | |
|---|---|---|
| | **2020** | 2019 |
| | **HK$'000** | HK$'000 |
| Current assets | **155,071** | 330,711 |
| Non-current assets | **212,086** | 209,949 |
| Current liabilities | **(82,070)** | (254,694) |
| Non-current liabilities | **(4,636)** | (4,367) |
| Equity attributable to owners of the Company | **196,312** | 197,108 |
| Non-controlling interests | **84,139** | 84,491 |
| Revenue | **30,472** | 5,518,261 |
| Expenses | **(48,026)** | (5,504,340) |
| (Loss)/profit for the year | **(17,554)** | 13,921 |
| (Loss)/profit attributable to owners of the Company | **(12,288)** | 9,745 |
| (Loss)/profit attributable to non-controlling interests | **(5,266)** | 4,176 |
| (Loss)/profit for the year | **(17,554)** | 13,921 |
| Total comprehensive income attributable to owners of the Company | **(794)** | 6,411 |
| Total comprehensive income attributable to non-controlling interests | **(352)** | 2,694 |
| Total comprehensive income for the year | **(1,146)** | 9,105 |
| Net cash inflow (outflow) from operating activities | **31,277** | (3,961) |
| Net cash outflow from investing activities | **–** | (15,200) |
| Net cash outflow from financing activities | **(31,113)** | (1,011) |
| Net cash inflow (outflow) | **164** | (20,172) |

## 42 CONTINGENT LIABILITIES

The Group had the following litigations at the end of the reporting period:

(a) Pursuant to the civil complaint dated 29 November 2019 (the "Haitong Civil Complaint") filed by Haitong UniTrust International Leasing Co., Ltd. (海通恒信國際租賃股份有限公司) (the "Plaintiff") as plaintiff with the Shanghai Financial Court, the Plaintiff claimed against Silk Road Logistics (Qian'an) Company Limited ("Qian'an Logistics"), a subsidiary of the Company for (i) repayment of an aggregate amount of RMB197,754,190; and (ii) all the costs in relation to the Haitong Civil Complaint. The Haitong Civil Complaint had been accepted by the Shanghai Financial Court. The Haitong Civil Complaint arose from the dispute under a domestic factoring agreement dated 26 September 2018 (the "Factoring Agreement") entered into among the Plaintiff, 天津物產進出口貿易有限公司 (transliterated in English as Tewoo Import and Export Trade Company Limited) ("Tewoo") and Qian'an Logistics. Pursuant to the Factoring Agreement, the Plaintiff agreed to provide financing to Tewoo which, in return, agreed to assign all its rights under the account receivables in the aggregate amount of RMB223,463,688 (the "Account Receivables") payable by Qian'an Logistics to the Plaintiff in connection with five copper cathode contracts supplied by Tewoo to Qian'an. According to the Factoring Agreement, the Plaintiff appointed Tewoo to be its collection and receiving agent for the receipt of the Account Receivables payable by Qian'an Logistics. Management of Qian'an Logistics, after having obtained legal advice, is of the view that the claim is without merit as Qian'an Logistics has fully settled the Account Receivables with Tewoo in connection with the five copper cathode contracts. Management of the Group has instructed its PRC legal adviser to contest the claim and to handle all other legal issues in connection with the Haitong Civil Complaint. Judgement has not rendered up to the end of the reporting period, no provision for the litigation has been made in the consolidated financial statements.

(b) Pursuant to the civil complaint dated 22 November 2019 (the "Haotai Civil Complaint") filed by 天津浩泰恒遠國際貿易有限公司 (transliterated in English as Tianjin Haotai Hengyuan International Trading Company Limited) (the "Haotai") as plaintiff with Tianjin No. 1 Intermediate People's Court, Haotai claimed against Qian'an Logistics for (i) repaying the aggregate amount of RMB68,370,454, being the purchase price for goods supplied by the Haotai to Qian'an Logistics; and (ii) all the costs in relation to the Haotai Civil Complaint. The amount of RMB68,370,454 claimed by Haotai has been included in trade payables at 31 December 2020 presented in the consolidated statement of financial position. On 4 January 2021, the Group received a judgment from Tianjin No. 1 Intermediate People's Court, pursuant to which the court approved the withdrawal application filed by Haotai in relation to its civil complaint against Qian'an Logistics, (i.e. the Haotai Civil Complaint) and the legal costs of the court should be borne by Haotai. No provision for the litigation has been made in the consolidated financial statements.

# Supplemental Information on Oil Exploring and Producing Activities (Unaudited)

*31 December 2020*

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 2020 and 2019 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 | **2020 Light and Medium Oil MSTB** | 2019 Light and Medium Oil MSTB |
|---|---|---|
| In the State of Illinois | | |
| Proved | **71** | 79 |
| Probable | **525** | 527 |
| | **596** | 606 |
| In the State of Indiana | | |
| Prove | **48** | 49 |
| Probable | **445** | 445 |
| | **493** | 494 |
| Total proved and probable | **1,089** | 1,100 |

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 | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **RESULTS** | | | | | |
| **Continuing operations** | | | | | |
| Revenue | **34,609** | 5,522,721 | 11,536,943 | 3,090,306 | 2,561,245 |
| Cost of sales and services | **(32,912)** | (5,488,620) | (11,469,113) | (2,899,156) | (2,504,340) |
| Gross profit | **1,697** | 34,101 | 67,830 | 191,150 | 56,905 |
| Other income and gains | **3,213** | 21,406 | 1,831 | 19,144 | 34,865 |
| Reversal of impairment of interests in an associate | **–** | – | 15,910 | – | – |
| Selling and distribution expenses | **–** | (131) | (218) | (29) | (122) |
| Administrative expenses | **(38,536)** | (58,411) | (57,942) | (48,923) | (40,218) |
| Gain on deemed acquisition of an associate | **1,651** | – | – | – | – |
| Loss on disposal of oil properties | **(1,573)** | (56,945) | – | – | – |
| Loss on deemed disposal/disposal of an associate | **–** | (7,891) | (8,757) | – | – |
| Impairment of goodwill | **(32,778)** | (14,250) | (7,840) | (85,908) | (29,238) |
| Impairment of interests in associates and amount due from an associate | **(274,898)** | (242,000) | (190,000) | – | – |
| Impairment of oil properties | **–** | (18,000) | (34,332) | (38,934) | (13,614) |
| Impairment of trade receivables | **–** | – | (92,955) | (235) | (9,146) |
| Impairment of prepayments, deposits and other receivables | **(2,800)** | (4,474) | (114,010) | – | (2,876) |
| Share of (losses) profit of associates | **(3,663)** | 4,118 | (2,858) | (1,909) | (1,452) |
| Finance costs | **(51,498)** | (40,747) | (49,172) | (64,107) | (70,649) |
| LOSS BEFORE TAX FROM CONTINUING OPERATIONS | **(399,185)** | (383,224) | (472,513) | (29,751) | (75,545) |
| Income tax credit (expense) | **17,011** | 4,412 | 24,460 | (44,516) | (9,475) |
| LOSS FOR THE YEAR FROM CONTINUING OPERATIONS | **(382,174)** | (378,812) | (448,053) | (74,267) | (85,020) |
| **Discontinued operations** | | | | | |
| Profit for the period from discontinued operations | **–** | – | – | 753,956 | (617,755) |
| (LOSS) PROFIT FOR THE YEAR | **(382,174)** | (378,812) | (448,053) | 679,689 | (702,775) |

# Five Year Financial Summary

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2020** | 2019 | 2018 | 2017 | 2016 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| (LOSS)/PROFIT FOR THE YEAR | **(382,174)** | (378,812) | (448,053) | 679,689 | (702,775) |
| OTHER COMPREHENSIVE INCOME | | | | | |
| Items that may be reclassified subsequently to profit or loss: | | | | | |
| Exchange differences on translation of foreign operations | **14,404** | 2,532 | (52,013) | (24,055) | 21,533 |
| Reclassification adjustments relating to foreign operations disposed of during the year | **–** | – | – | (79,162) | – |
| OTHER COMPREHENSIVE INCOME FOR THE YEAR, NET OF TAX | **14,404** | 2,532 | (52,013) | (103,217) | 21,533 |
| TOTAL COMPREHENSIVE INCOME FOR THE YEAR | **(367,770)** | (376,280) | (500,066) | 576,472 | (681,242) |
| Loss/(profit) for the year from continuing operations attributable to: | | | | | |
| Owners of the Company | **(376,908)** | (382,988) | (453,358) | (91,336) | (95,352) |
| Non-controlling interests | **(5,266)** | 4,176 | 5,305 | 17,069 | 10,332 |
| | **(382,174)** | (378,812) | (448,053) | (74,267) | (85,020) |
| (Loss)/profit attributable to: | | | | | |
| Owners of the Company | **(376,908)** | (382,988) | (453,358) | 670,520 | (679,007) |
| Non-controlling interests | **(5,266)** | 4,176 | 5,305 | 9,169 | (23,768) |
| | **(382,174)** | (378,812) | (448,053) | 679,689 | (702,775) |
| Total comprehensive income attributable to: | | | | | |
| Owners of the Company | **(367,418)** | (378,974) | (500,977) | 565,290 | (658,076) |
| Non-controlling interests | **(352)** | 2,694 | 911 | 11,182 | (23,166) |
| | **(367,770)** | (376,280) | (500,066) | 576,472 | (681,242) |
| ASSETS, LIABILITIES AND NON-CONTROLLING INTERESTS | | | | | |
| TOTAL ASSETS | **751,142** | 1,146,676 | 2,772,338 | 2,725,045 | 5,091,549 |
| TOTAL LIABILITIES | **(748,093)** | (783,857) | (2,033,199) | (1,486,008) | (4,886,668) |
| NON-CONTROLLING INTERESTS | **(84,139)** | (84,491) | (81,797) | (80,886) | (1,407) |
| | **(81,090)** | 278,328 | 657,342 | 1,158,151 | 203,474 |