International Standard Resources Holdings Limited

標準資源控股有限公司

(Incorporated in Hong Kong with limited liability)

(Stock Code: 91)

(Warrant Code: 1487)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2017

The Board of Directors (the "**Board**" or "**Directors**") of International Standard Resources Holdings Limited (the "**Company**") hereby announces the results of the Company and its subsidiaries (the "**Group**") for the year ended 31 December 2017 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017** ***HK$'000***	2016 *HK$'000*
Revenue	3	**16,669**	23,518
Cost of sales		**(14,611)**	(20,273)
Gross profit		**2,058**	3,245
Other income		**1,937**	2,293
Other gains and losses	4	**86,775**	28,592
Administrative expenses		**(53,711)**	(53,885)
Amortisation of production sharing contract	8	**(64,663)**	(81,839)
Impairment loss on production sharing contract	8	**(323,032)**	(341,771)
Loss from operations		**(350,636)**	(443,365)
Finance costs	5(a)	**(53,006)**	(54,960)
Loss before tax	5	**(403,642)**	(498,325)
Income tax	6	**99,495**	113,790
Loss for the year		**(304,147)**	(384,535)
Attributable to:			
Owners of the Company		**(303,913)**	(384,448)
Non-controlling interests		**(234)**	(87)
		(304,147)	(384,535)
Loss per share	7		
Basic and diluted (cents per share)		**(6.87)**	(13.04)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

	2017	2016
	HK$'000	*HK$'000*
Loss for the year	**(304,147)**	(384,535)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**66,834**	(82,841)
Other comprehensive income (expense) for the year, net of income tax	**66,834**	(82,841)
Total comprehensive expenses for the year	**(237,313)**	(467,376)
Attributable to:		
Owners of the Company	**(237,079)**	(467,289)
Non-controlling interests	**(234)**	(87)
	(237,313)	(467,376)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment		**99,208**	89,315
Intangible assets	8	**1,085,886**	1,372,832
Other receivables	9	**85,000**	–
Available-for-sale financial assets		**1,000**	1,000
		1,271,094	1,463,147
Current assets			
Loan receivables		**5,510**	4,129
Financial assets at fair value through profit or loss		**29,599**	70,085
Trade and other receivables	9	**3,452**	92,712
Cash and bank balances		**34,967**	142,515
		73,528	309,441
Asset classified as held for sale	10	**4,274**	–
		77,802	309,441
Current liabilities			
Other borrowing, unsecured		**11,814**	11,265
Trade and other payables	11	**56,387**	51,414
Bonds	12	**23,919**	83,897
Convertible notes – liability portion, unsecured	13	**329,394**	–
Convertible notes – embedded derivatives, unsecured	13	**1,336**	–
Tax payables		**3,741**	3,680
		426,591	150,256
Net current (liabilities) assets		**(348,789)**	159,185
Total assets less current liabilities		**922,305**	1,622,332

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	**2017** *HK$'000*	2016 *HK$'000*
Non-current liabilities			
Bonds	12	**49,879**	67,079
Convertible notes – liability portion, unsecured	13	**–**	403,190
Convertible notes – embedded derivatives, unsecured	13	**–**	105,841
Deferred tax liabilities		**270,199**	344,657
		320,078	920,767
Net assets		**602,227**	701,565
Capital and reserves			
Share capital	14	**2,032,227**	1,894,252
Reserves		**(1,425,805)**	(1,188,726)
Equity attributable to owners of the Company		**606,422**	705,526
Non-controlling interests		**(4,195)**	(3,961)
Total equity		**602,227**	701,565

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the owners of the Company						
	Share capital	Special capital reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 1 January 2016	1,831,702	579,799	195,582	(1,496,818)	1,110,265	(3,874)	1,106,391
Loss for the year	–	–	–	(384,448)	(384,448)	(87)	(384,535)
Other comprehensive expense for the year	–	–	(82,841)	–	(82,841)	–	(82,841)
Total comprehensive expenses for the year	–	–	(82,841)	(384,448)	(467,289)	(87)	(467,376)
Issue of shares upon exercise of warrants	62,550	–	–	–	62,550	–	62,550
At 31 December 2016 and 1 January 2017	1,894,252	579,799	112,741	(1,881,266)	705,526	(3,961)	701,565
Loss for the year	–	–	–	(303,913)	(303,913)	(234)	(304,147)
Other comprehensive income for the year	–	–	66,834	–	66,834	–	66,834
Total comprehensive income (expenses) for the year	–	–	66,834	(303,913)	(237,079)	(234)	(237,313)
Issue of new shares under rights issue, net of share issue expenses	137,972	–	–	–	137,972	–	137,972
Issue of shares upon exercise of warrants	3	–	–	–	3	–	3
At 31 December 2017	2,032,227	579,799	179,575	(2,185,179)	606,422	(4,195)	602,227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2017

1. BASIS OF PREPARATION

(a) General Information

International Standard Resources Holdings Limited (the "Company") is a limited liability company incorporated in Hong Kong and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited. The address of its registered office and the principal place of business of the Company is Unit E, 29/F, Tower B, Billion Centre, No. 1 Wang Kwong Road, Kowloon.

The financial information relating to the years ended 31 December 2017 and 2016 included in this preliminary announcement of annual results 2017 do not constitute the Company's statutory annual consolidated financial statements for those years but is derived from those financial statements. Further information relating to these statutory financial statements required to be disclosed in accordance with section 436 of the Companies Ordinance is as follows:

The Company has delivered the financial statements for the year ended 31 December 2016 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Companies Ordinance and will deliver the financial statements for the year ended 31 December 2017 in due course.

The Company's auditor has reported on the financial statements of the Group for both years. The independent auditor's report for the year ended 31 December 2017 was unqualified with a material uncertainty related to going concern section; but did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance.

The principal activities of the Group are coalbed methane gas exploration and exploitation in the People's Republic of China (the "PRC"), sale of electronic components and treasury which includes securities trading and money lending.

The consolidated financial statements are presented in Hong Kong dollars (the "HK$"), which is also the functional currency of the Company. In addition, the functional currencies of certain group entities that operate outside Hong Kong are determined based on the currency of the primary economic environment in which the group entities operate.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared in accordance with all applicable Hong Kong Financial Reporting Standards ("HKFRSs"), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA"), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. The consolidated financial statements also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities ("Listing Rules") on The Stock Exchange of Hong Kong Limited.

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments that are measured at fair values at the end of each reporting period.

Going Concern

The Group incurred a loss of approximately HK$304,147,000 for the year ended 31 December 2017 and as of that date, the Company recorded net current liabilities of approximately HK$348,789,000. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due for the foreseeable future, after taking into consideration of the followings:

(i) An independent licensed money lending company has granted loan facilities of HK$40,000,000 to the Group and undertaken to provide adequate funds to enable the Group to meet its liabilities and to pay financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving the consolidated financial statement;

(ii) The Company has entered into the convertible notes restructuring agreement with New Alexander Limited, pursuant to which the noteholder has agreed to a consensual restructuring of its rights and obligations under the existing convertible notes. The noteholder has undertaken that the convertible notes will not be demanded for repayment within one year.

The directors of the Company have carried out a detailed review of the cash flow forecast of the Group for the next twelve months from the reporting date taking into account the impact of above measures, the directors of the Company believe that the Group will have sufficient cash resources to satisfy its future working capital and other financing requirements as and when they fall due in the next twelve months from the reporting date and, accordingly, are satisfied that it is appropriate to prepare the consolidated financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amount, to provide for future liabilities which might arise and to reclassify non-current assets and liabilities to current assets and liabilities respectively. The effects of these potential adjustments have not been reflected in these consolidated financial statements.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the HKICPA for the first time in the current year:

Amendments to HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRS 12	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle

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

Amendments to HKAS 7 Disclosure Initiative

The Group has applied these amendments for the first time in the current year. The amendments require an entity to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both cash and non-cash changes. In addition, the amendments also require disclosures on changes in financial assets if cash flows from those financial assets were, or future cash flows will be, included in cash flows from financing activities.

Specifically, the amendments require the following to be disclosed: (i) changes from financing cash flows; (ii) changes arising from obtaining or losing control of subsidiaries or other businesses; (iii) the effect of changes in foreign exchange rates; (iv) changes in fair values; and (v) other changes.

New and revised HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRSs	Annual improvements to HKFRSs 2015-2017 Cycle[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Venture[2]
Amendments to HKAS 28	As part of the Annual Improvements to HKFRSs 2014–2016 Cycle[1]
Amendments to HKAS 40	Transfers of Investment Property[1]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]

1 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2021, with earlier application permitted.

4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 Financial Instruments

HKFRS 9 introduces new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at fair value through other comprehensive income. All other financial assets are measured at their fair value at subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability's credit risk are not subsequently reclassified to profit or loss. Under HKAS 39 *Financial Instruments: Recognition and Measurement*, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.

- for non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows and discounted at the financial liabilities' original effect interest rate. Transaction cost or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification. Currently, the Group revised the effective interest rates for non-substantial modification of financial liabilities with no gain/loss being recognised in profit or loss.

- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The directors of the Company do not anticipate that the application of HKFRS 9 will have a material impact on the Group's consolidated financial statements.

The directors of the Company do not anticipate that the application of the other new and revised standards and amendments will have a material impact on the Group's consolidated financial statements.

3. REVENUE AND SEGMENT REPORTING

(a) Revenue

The principal activities of the Group are coalbed methane gas exploration and exploitation in the PRC, sale of electronic components and treasury including securities trading and money lending.

An analysis of the amount of each significant category of revenue from principal activities during the year is set out below:

	2017	2016
	HK$'000	*HK$'000*
Sale of electronic components	**14,581**	20,388
Sale of coalbed methane products	**1,418**	2,000
Interest income from money lending	**670**	1,130
	16,669	23,518

(b) Segment information

The Group manages its business by divisions, which are organised by business lines. In a manner consistent with the way in which information is reported internally to the Group's most senior executive management, who are also the executive directors of the Company, for the purpose of resource allocation and performance assessment, the Group has identified the following three reportable segments. No operating segments have been aggregated to form the following reportable segments.

– Electronic components
– Coalbed methane
– Treasury (i.e. securities trading and money lending)

(i) Segment results, assets and liabilities

For the purpose of assessing segment performance and allocating resources between segments, the Group's most senior executive management monitors the results, assets and liabilities attributable to each reportable segment on the following bases:

Segment assets include all tangible, intangible assets and current assets with the exception of other corporate assets. Segment liabilities include trade and other payables attributable to the activities of the individual segments and borrowings managed directly by the segments.

Revenue and expenses are allocated to the reportable segments with reference to sales generated by those segments and the expenses incurred by those segments or which otherwise arise from the depreciation or amortisation of assets attributable to those segments.

The measure used for reporting segment profit is "segment result". Segment result includes the operating profit generated by the segment and finance costs directly attributable to the segment, without allocation of head office or corporate administration costs. Income tax is not allocated to reportable segment.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2017 and 2016 is set out below:

Year ended 31 December 2017

	Electronic components *HK$'000*	**Coalbed methane** *HK$'000*	**Treasury** *HK$'000*	**Total** *HK$'000*
Reportable segment revenue from external customers	**14,581**	**1,418**	**670**	**16,669**
Inter-segment revenue	**–**	**–**	**–**	**–**
Reportable segment revenue	**14,581**	**1,418**	**670**	**16,669**
Reportable segment results	**(2,053)**	**(351,802)**	**(14,412)**	**(368,267)**
Amortisation of production sharing contract	**–**	**64,663**	**–**	**64,663**
Allowance for doubtful debts	**1,046**	**–**	**–**	**1,046**
Depreciation	**21**	**11,645**	**37**	**11,703**
Gain on fair value change of convertible notes – embedded derivatives	**–**	**(92,938)**	**–**	**(92,938)**
Gain on disposal of financial assets at fair value through profit or loss	**–**	**–**	**(1,220)**	**(1,220)**
Loss on redemption of convertible notes	**–**	**5,455**	**–**	**5,455**
Impairment loss on production sharing contract	**–**	**323,032**	**–**	**323,032**
Interest expenses	**–**	**37,875**	**–**	**37,875**
Net loss on revaluation of financial assets at fair value through profit or loss	**–**	**–**	**14,907**	**14,907**
Other income	**(7)**	**(540)**	**(896)**	**(1,443)**
Reportable segment assets	**2,047**	**1,189,098**	**123,924**	**1,315,069**
Additions to non-current segment assets during the year	**–**	**17,741**	**–**	**17,741**
Reportable segment liabilities	**21,112**	**366,408**	**3,851**	**391,371**

Year ended 31 December 2016

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	20,388	2,000	1,130	23,518
Inter-segment revenue	–	–	–	–
Reportable segment revenue	20,388	2,000	1,130	23,518
Reportable segment results	(2,972)	(415,349)	(42,335)	(460,656)
Amortisation of production sharing contract	–	81,839	–	81,839
Allowance for doubtful debts	2,422	–	–	2,422
Depreciation	36	11,545	101	11,682
Gain on fair value change of convertible notes – embedded derivatives	–	(83,295)	–	(83,295)
Gain on disposal of financial assets at fair value through profit or loss	–	–	(762)	(762)
Gain on redemption of convertible notes	–	(1,640)	–	(1,640)
Impairment loss on production sharing contract	–	341,771	–	341,771
Interest expenses	–	43,817	–	43,817
Net loss on revaluation of financial assets at fair value through profit or loss	–	–	43,333	43,333
Other income	–	(637)	(1,307)	(1,944)
Reportable segment assets	5,654	1,472,207	177,604	1,655,465
Additions to non-current segment assets during the year	–	13,482	23	13,505
Reportable segment liabilities	21,091	537,114	3,866	562,071

(ii) Reconciliations of reportable segment revenue, profit or loss, assets and liabilities

	2017	2016
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**16,669**	23,518
Elimination of inter-segment revenue	**–**	–
Consolidated revenue	**16,669**	23,518
Profit or loss		
Reportable segment results	**(368,267)**	(460,656)
Other income	**494**	349
Other gains and losses	**2,084**	(1,785)
Unallocated head office and corporate expenses	**(37,953)**	(36,233)
Consolidated loss before tax	**(403,642)**	(498,325)
Assets		
Reportable segment assets	**1,315,069**	1,655,465
Unallocated head office and corporate assets	**33,827**	117,123
Consolidated total assets	**1,348,896**	1,772,588
Liabilities		
Reportable segment liabilities	**391,371**	562,071
Tax payable	**3,741**	3,680
Deferred tax liabilities	**270,199**	344,657
Unallocated head office and corporate liabilities	**81,358**	160,615
Consolidated total liabilities	**746,669**	1,071,023

(iii) *Geographical information*

In presenting geographical information, revenue is based on the geographical location of the external customers. Specified non-current assets, which represent property, plant and equipment, intangible assets and available-for-sale financial assets, are based on the geographical location of assets.

	Hong Kong	**PRC**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
2017			
Revenue	**15,251**	**1,418**	**16,669**
Specified non-current assets	**86,555**	**1,184,539**	**1,271,094**
2016			
Revenue	21,518	2,000	23,518
Specified non-current assets	1,856	1,461,291	1,463,147

(iv) *Information about major customers*

Revenue from customers from the electronic components segment contributing 10% or more of the total revenue of the Group is as follows:

	2017	2016
	HK$'000	*HK$'000*
Customer A	**7,122**	5,895
Customer B	**3,637**	6,094
Customer C	**2,690**	3,144
Customer D*	**N/A**	4,096

* Customer D contributed less than 10% of the Group's total revenue for the year ended 31 December 2017.

4. OTHER GAINS AND LOSSES

	2017 *HK$'000*	2016 *HK$'000*
Allowance for doubtful debts	**(1,046)**	(2,422)
Gain on fair value change of convertible notes – embedded derivatives	**92,938**	83,295
Gain on disposal of financial assets at fair value through profit or loss	**1,220**	762
(Loss) gain on redemption of convertible notes	**(5,455)**	1,640
Loss on property, plant and equipment written off	**(17)**	(12)
Net loss on revaluation of financial assets at fair value through profit or loss	**(14,907)**	(43,333)
Net foreign exchange gain (loss)	**14,040**	(11,338)
Reversal of write-down of inventories	**2**	–
	86,775	28,592

5. LOSS BEFORE TAX

Loss before tax is arrived at after charging (crediting):

		2017 *HK$'000*	2016 *HK$'000*
(a)	**Finance costs**		
	Imputed interest on convertible notes	**37,875**	43,817
	Imputed interest on bonds	**15,131**	11,143
		53,006	54,960
(b)	**Staff costs (including directors' emoluments)**		
	Salaries, wages and other benefits	**23,935**	23,420
	Contributions to defined contribution retirement plans	**2,092**	1,861
	Total staff costs	**26,027**	25,281
(c)	**Other items**		
	Allowance for doubtful debts	**1,046**	2,422
	Amortisation of production sharing contract	**64,663**	81,839
	Auditor's remuneration		
	– Audit services	**600**	570
	– Non-audit services	**271**	130
	Cost of inventories recognised as expenses	**14,611**	20,273
	Depreciation of property, plant and equipment	**12,174**	12,594
	Impairment loss on production sharing contract	**323,032**	341,771
	Loss on property, plant and equipment written off	**17**	12
	Operating lease charges in respect of land and buildings	**2,257**	2,321
	Reversal of write-down of inventories	**(2)**	–

6. INCOME TAX

	2017	2016
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**101**	68
Hong Kong Profits Tax	**49**	–
	150	68
Overprovision in prior years		
Hong Kong Profits Tax	**–**	(2)
Deferred tax		
Current year	**(99,645)**	(113,856)
Income tax credit	**(99,495)**	(113,790)

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the year.

(ii) The Company's wholly-owned subsidiary, Canada Can-Elite Energy Limited ("Can-Elite"), incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 28% (2016: 28%).

Pursuant to the tax treaty agreement between the PRC government and the government of Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, tax payable in the PRC on profits, income or gains arising in the PRC shall be deducted from any Canadian tax payable in respect of such profits, income or gains. No provision for Canadian tax has been made as the Group has no assessable profits derived from Canada during the years ended 31 December 2017 and 2016.

(iii) The subsidiaries in the PRC are subject to PRC Enterprise Income Tax rate of 25% (2016: 25%).

(iv) Pursuant to the PRC tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. According to the tax treaty between Hong Kong Special Administrative Region and the PRC for avoidance of double taxation and prevention of fiscal evasion, dividends declared from the PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax.

7. LOSS PER SHARE

(a) Basic loss per share

The calculation of the basic loss per share attributable to owners of the Company is based on the following data:

	2017	2016
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(303,913)**	(384,448)

	2017	2016
Weighted average number of ordinary shares for the purpose of basic loss per share		
Issued ordinary shares at 1 January	**6,387,724,561**	5,700,358,074
Effect of shares issued under rights issue	**1,216,292,759**	–
Effect of exercise of warrants	**15,699**	173,488,235
Weighted average number of ordinary shares in issue during the year	**7,604,033,019**	5,873,846,309
Share consolidation effective on 24 February 2017 *(note 14(a))*	**(3,193,862,281)**	(2,936,923,155)
Effect of bonus element on shares issued under rights issue on 28 March 2017 *(note 14(b))*	**11,742,141**	10,797,512
Weighted average number of ordinary shares at 31 December after the effect of share consolidation and rights issue	**4,421,912,879**	2,947,720,666

(b) Diluted loss per share

No adjustment was made in calculating diluted loss per share for both years as the conversion of convertible notes and exercise of warrants would result in decrease in loss per share. Accordingly, the diluted loss per share is same as the basic loss per share.

8. INTANGIBLE ASSETS

	Production sharing contract ("PSC")
	HK$'000
Cost	
At 1 January 2016	3,937,947
Exchange adjustment	(251,743)
At 31 December 2016 and 1 January 2017	3,686,204
Exchange adjustment	277,760
At 31 December 2017	3,963,964
Accumulated amortisation and impairment	
At 1 January 2016	2,022,673
Charge for the year	81,839
Impairment loss	341,771
Exchange adjustment	(132,911)
At 31 December 2016 and 1 January 2017	2,313,372
Charge for the year	64,663
Impairment loss	323,032
Exchange adjustment	177,011
At 31 December 2017	2,878,078
Carrying amount	
At 31 December 2017	1,085,886
At 31 December 2016	1,372,832

Notes:

(a) Through the acquisition of 100% equity interest in Merit First Investments Limited on 26 November 2008, the Group has obtained the interest in a coalbed methane PSC which was entered into between Can-Elite, a wholly-owned subsidiary of the Company, and China United Coalbed Methane Corporation Limited ("China United") on 8 November 2007. The interests of China United and Can-Elite under the PSC are in the proportion of 30% and 70% respectively, or in proportion to their participating interests in the development costs.

On 21 March 2008, the PSC was approved by the Ministry of Commerce of the PRC in respect of (i) the execution and implementation of the PSC; (ii) the terms of the PSC; and (iii) 70:30 profit sharing ratio between Can-Elite and China United. Beijing Z&D Law Firm, the legal advisor of the Company as to the PRC laws, advised that China United and Can-Elite had obtained all relevant approvals in relation to the execution and implementation of the PSC.

On 18 February 2009, Can-Elite and China United entered into a modification agreement, which formed an integral part of PSC, pursuant to which (i) the contract area has been increased from 356.802 to 567.843 square kilometres by an additional area of 211.041 square kilometres adjacent to the original contract area, at zero costs; and (ii) during the exploration period from 1 April 2008 to 31 March 2013, the number of wells to be drilled by Can-Elite under the PSC has been increased from 8 to 11 wells and the exploration costs shall be increased from RMB17,850,000 to RMB28,400,000. All other terms of the PSC shall remain unchanged. The modification agreement to the PSC was approved by the Ministry of Commerce of the PRC on 16 March 2009.

On 29 August 2013, Can-Elite entered into the second modification agreement to the modified PSC with China United, pursuant to which, the exploration period for the contract area under the PSC has been extended for two more years to 31 March 2015 during which Can-Elite shall expend at least RMB15,000,000 per year for exploration.

On 23 December 2015, Can-Elite entered into the third modification agreement to the modified PSC with China United. Pursuant to the third modification agreement, among other things, the exploration area of approximately 567.843 square kilometers, located in Su'nan, Anhui Province as set out under the modified PSC has been divided into Area A and Area B, consisting of 23.686 and 544.157 square kilometers, respectively. The exploration period of Area A has been extended for a period up to the date in which the relevant authorities of the PRC government grant the approval for the overall development program, whereas the exploration period of Area B has been extended for two more years from 1 April 2015 to 31 March 2017. During the extended exploration period, Can-Elite shall expend at least RMB8,000,000 per year for the exploration of Area A, and at least RMB40,000,000 for the exploration of Area B, respectively.

On 21 August 2017, Can-Elite entered into the fourth modification agreement to the modified PSC with China United. Pursuant to the fourth modification agreement, the well count required to be completed in Area A during the exploration period (a period up to the date of approval by the relevant authorities under the PRC government for the overall development program) has increased from at least two U-shaped connected wells to at least four U-shaped connected wells. Further, the exploration period of Area B has been extended for three more years, from the original expiry date (being 31 March 2017) to 31 March 2020. During the extended exploration period, at least 15 wells are required to be completed in Area B with the performance of relevant exploration works such as fracturing, drainage and extraction. In order to complete the above exploration works, Can-Elite is required to utilise at a minimum of RMB8,000,000 equivalent in US dollars per year towards Area A and at a minimum of RMB30,000,000 equivalent in US dollars towards Area B, respectively, as the expected minimum exploration expenditure amount.

The PSC provides a term of thirty consecutive years commencing from 1 April 2008, with production period not more than twenty consecutive years commencing on a date determined by the joint management committee which is set up by Can-Elite and China United, pursuant to the PSC, to oversee the operations in the contract area.

Can-Elite and China United shall reimburse the cost incurred during the development and production periods in the proportion of 70% and 30% respectively, or in proportion to their participating interests of each coalbed methane field. Upon extraction of the coalbed methane and liquid hydrocarbons, the coalbed methane and liquid hydrocarbons products shall be sold by China United and the proceeds will be deposited into a joint bank account opened by Can-Elite and China United, and the profits be distributed between the parties in the proportion of their participating interests in the development costs, or any other marketing approaches and procedures to be agreed between Can-Elite and China United.

For all assistance to be provided by China United, administrative fees in the sum of US$30,000 and US$50,000 were payable by Can-Elite to China United during the exploration period and the development and production period, respectively, as agreed by Can-Elite and China United with reference to the administrative fee payable by other foreign investors to China United in other production sharing contracts. In the opinion of the directors of the Company, the administrative fee payable by Can-Elite is comparable to that payable by other foreign investors to China United in other production sharing contracts.

The PSC is amortised on straight-line basis over the remaining contract terms of 21.9 years (2016: 22.9 years) of the PSC.

Set out below is the summary of assets, liabilities and results of the coalbed methane ("CBM") business under the PSC included in the consolidated financial statements for the year:

		2017	2016
		HK$'000	*HK$'000*
(i)	**Results for the year**		
	Revenue	**1,418**	2,000
	Administrative expenses	**(26,482)**	(24,791)
	Finance costs	**(37,875)**	(43,817)
	Amortisation of PSC	**(64,663)**	(81,839)
	Impairment loss on PSC	**(323,032)**	(341,771)
	PRC Enterprise Income Tax	**(101)**	(68)
	Reversal of deferred tax liabilities	**96,924**	105,902
(ii)	**Other comprehensive income (expense)**		
	Exchange difference on translation of foreign operations	**66,995**	(82,856)
(iii)	**Assets and liabilities**		
	Intangible assets – PSC	**1,085,886**	1,372,832
	Property, plant and equipment*	**98,653**	84,265
	Other payables	**(23,864)**	(16,818)
	Other borrowing	**(11,814)**	(11,265)
	Tax liabilities	**(30)**	(18)
	Deferred tax liabilities	**(270,199)**	(343,207)

* The property, plant and equipment of the CBM business under the PSC consisted of construction in progress, plant and equipment, furniture and fixture and motor vehicles.

		2017	2016
(iv)	**Capital commitments** *(note 16(a))*		
	Contracted but not provided for	**23,179**	4,385

(b) Impairment test on PSC

The recoverable amount of the PSC attributable to the Group has been determined based on value-in-use calculations. The valuation was carried out by Cushman & Wakefield Limited, an independent firm of professional valuer not connected with the Group. For the purpose of impairment testing, the carrying amount of intangible assets has been allocated to an individual cash-generating unit.

For impairment assessment purposes, cash flow projections are prepared on the following assumptions:

Period of cash flow projections	20 years
Discount rate (pre-tax)	21.30%

The calculation is based on the pre-tax cash flow projections of the financial budgets approved by the management covering the 20-year period and a pre-tax discount rate of 21.30% (2016: 20.97%) which have duly reflected risks specific to the PSC, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, and exploitation method are appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's experience and expectation for the market development in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2017 is based on the reports including the technical reports issued by Netherland, Sewell & Associates, Inc. on 2 March 2011 and 31 October 2008, the technical reports prepared by an integrated geoscience and engineering consulting company on 23 March 2015 and the reserve evaluation report prepared in respect of the reserves located in Luling Block, being part of the contract area, which had been approved by the Office for Oil and Gas Profession of the Mineral Resources and Reserves Assessment Centre of the Ministry of Land and Resources of the PRC and was duly filed with the Ministry of Land and Resources of the PRC on 4 June 2014 after the compliance review. The completion of the approval and filing procedure signified that the risk assessment stage of Luling Block in the contract area has come to an end, and the PSC work will proceed to the design and development stage. Due to the delay on the implementation of the business plan for the exploration and exploitation of the CBM and the continuous low level of domestic natural gas price in the PRC, the carrying amount of the PSC exceeds its estimated recoverable amount and an impairment loss of HK$323,032,000 (2016: HK$341,771,000) has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2017.

9. TRADE AND OTHER RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	**15,822**	17,360
Less: Allowance for doubtful debts *(note (b))*	**(14,562)**	(13,516)
	1,260	3,844
Other receivables	**1,084**	462
Other receivable from K&L Gates *(note (c))*	**85,000**	85,000
Deposits and prepayments	**1,108**	3,406
	87,192	88,868
	88,452	92,712

Analysed for reporting purpose as:

	2017	2016
Non-current assets	**85,000**	–
Current assets	**3,452**	92,712
Total	**88,452**	92,712

Notes:

(a) Ageing analysis of trade receivables

The ageing analysis of the trade receivables of the Group, based on the dates of the invoices and net of allowance for doubtful debts, is as follows:

	2017	2016
	HK$'000	*HK$'000*
0-30 days	**1,101**	1,933
31-90 days	**158**	1,986
91-365 days	**1,081**	4,121
Over 365 days	**13,482**	9,320
	15,822	17,360
Less: Allowance for doubtful debts	**(14,562)**	(13,516)
	1,260	3,844

The credit terms granted to trade receivables in respect of sale of electronic components are due within 30 days to 90 days from the date of billing.

(b) Allowance for doubtful debts

Impairment losses in respect of trade receivables are recorded using an allowance account unless the Group is satisfied that recovery of the amount is remote, in which case the impairment loss is written off against trade receivables directly.

Movements in the allowance for doubtful debts during the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**13,516**	11,094
Allowance recognised on trade receivables	**1,046**	2,422
At 31 December	**14,562**	13,516

At 31 December 2017, the Group's trade receivables of HK$14,562,000 (2016: HK$13,516,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. The Group does not hold any collateral over the trade receivable balances.

There is no trade receivable past due but not impaired at the end of both reporting periods.

(c) Included in other receivables of the Group were aggregate sums of HK$85,000,000 (2016: HK$85,000,000) which were escrow monies placed at the escrow accounts of a firm of solicitors which acted as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to in note 17(a). Based on the facts and circumstances and the legal advice, the directors of the Company are of the opinion that the Group has good prospects on succeeding on its claim to recover the escrow monies in full and the change of estimated time to recover the escrow sum is expected to be longer than 12 months after the end of the reporting period due to the prolonged legal procedures (particularly taking into consideration the recent re-amended pleadings for statement of claims, discovery process and increased complication in the procedures including the introduction of expert witness). Taking into account the change of estimated time of recovering this amount and without taking mediation actions, the Group has reclassified the escrow sums to non-current asset, which was presented as a current asset under trade and other receivables as at 31 December 2016. As the timing of recovering this escrow monies is expected to be more than 12 months, the Group has assessed the estimated cash inflow of the escrow monies by using the effective interest method after considering the change of estimated time of recovery and expected interest claimed. The directors of the Company are of the opinion, based on the legal advice sought and assessment of estimated cash inflow of the escrow monies, no impairment loss is required as at 31 December 2017.

10. ASSET CLASSIFIED AS HELD FOR SALE

	2017	2016
	HK$'000	*HK$'000*
Asset classified as held for sale	**4,274**	–

On 13 July 2017 and 8 February 2018, the Group announced that the Jun Da Zhao Yang (Beijing) Investment Management & Consulting Company Limited, a company incorporated in PRC with limited liability, which is a wholly-owned subsidiary of the Company, entered into a property sale and purchase agreement with an independent third party to dispose the property located at Unit 1908, Level 17, Block 5-2, No. 5 Chongwenmen Outer Street, Dongcheng District, Beijing, PRC with the gross floor area of approximately 273.71 square meters (the "Property"). The Property was occupied for self-use by the Group (classified as property, plant and equipment).

The Group considers that it is highly probable that the sale of the Property will be completed within one year and thus, reclassify the Property to asset classified as held for sale for the presentation of the consolidated financial statements as at 31 December 2017. At the date of the reclassification, the carrying value of the Property is approximately of HK$4,274,000.

11. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables *(note)*	**2,053**	1,732
Other payables	**28,093**	24,265
Deposits received	**2,162**	–
Amounts due to non-controlling interests of a subsidiary	**15,737**	15,637
Accrued expenses	**8,342**	9,780
	56,387	51,414

Note:

The ageing analysis of the trade payables of the Group, based on the dates of the invoices, is as follows:

	2017	2016
	HK$'000	*HK$'000*
Current – within 1 month	**1,132**	720
More than 1 month but within 3 months	**820**	938
More than 3 months but within 6 months	**15**	23
More than 6 months	**86**	51
	2,053	1,732

12. BONDS

	Unlisted bond ("Bond I") HK$'000 (note (a))	Unlisted bond ("Bond II") HK$'000 (note (b))	Unlisted bond ("Bond III") HK$'000 (note (c))	Unlisted bond ("Bond IV") HK$'000 (note (d))	Total HK$'000
At 1 January 2016	103,277	920	–	–	104,197
Issue of bonds, net of transaction cost	–	–	10,890	32,040	42,930
Interest charge	10,350	88	285	420	11,143
Less: Interest paid	(6,678)	(70)	(274)	(272)	(7,294)
At 31 December 2016 and 1 January 2017	106,949	938	10,901	32,188	150,976
Issue of bonds, net of transaction cost	–	–	–	4,450	4,450
Repayment of bonds	(87,000)	–	–	–	(87,000)
Interest charge	10,460	90	805	3,776	15,131
Less: Interest paid	(6,490)	(70)	(770)	(2,429)	(9,759)
At 31 December 2017	23,919	958	10,936	37,985	73,798
Analysed for reporting purpose as:					
At 31 December 2017					
Non-current liabilities	–	958	10,936	37,985	49,879
Current liabilities	23,919	–	–	–	23,919
Total	23,919	958	10,936	37,985	73,798
At 31 December 2016					
Non-current liabilities	23,052	938	10,901	32,188	67,079
Current liabilities	83,897	–	–	–	83,897
Total	106,949	938	10,901	32,188	150,976

Notes:

(a) In December 2014, Bond I with an aggregate principal amount of HK$10,000,000 was issued to the subscriber through the placing agent and with an aggregate principal amount of HK$77,000,000 were issued to individual subscribers with the interest rate of 6% per annum payable annually.

In January and February 2015, Bond I with an aggregate principal amount of HK$1,000,000 was issued to the subscriber through the placing agent and with an aggregate principal amount of HK$23,000,000 were issued to individual subscribers with the interest rate of 6% per annum payable annually.

Bond I will be matured and redeemed by the Company on the third anniversary of the date of issue correspondingly. During the year, an aggregate principal amount of HK$87,000,000 were repaid. At 31 December 2017, Bond I with an aggregate principal amount of HK$24,000,000 remained outstanding.

The imputed interest expenses on Bond I were calculated using effective interest method with average effective interest rate of 10.02% (2016: 10.02%) per annum.

(b) In December 2014, Bond II with an aggregate principal amount of HK$1,000,000 was issued to the subscriber through the placing agent with the interest rate of 7% per annum payable annually.

Bond II will be matured and redeemed by the Company on the fifth anniversary of the date of issue correspondingly.

The imputed interest expenses on Bond II were calculated using effective interest method with effective interest rate of 9.59% (2016: 9.59%) per annum.

(c) In August and November 2016, Bond III with an aggregate principal amount of HK$11,000,000 were issued to the individual subscribers with the interest rate of 7% per annum payable semi-annually.

Bond III will be matured and redeemed by the Company on the third anniversary of the date of issue correspondingly.

The imputed interest expenses on Bond III were calculated using effective interest method with average effective interest rate of 7.38% (2016: 7.38%) per annum.

(d) In November and December 2016, Bond IV with an aggregate principal amount of HK$36,000,000 were issued to the subscribers through the placing agent with the interest rate of 6% per annum payable semi-annually.

In February 2017, Bond IV with an aggregate principal amount of HK$5,000,000 was issued to the subscriber through the placing agent with the interest rate of 6% per annum payable semi-annually.

Bond IV will be matured and redeemed by the Company on the third anniversary of the date of issue correspondingly.

The imputed interest expenses on Bond IV were calculated using effective interest method with average effective interest rate of 10.44% (2016: 10.44%) per annum.

13. CONVERTIBLE NOTES, UNSECURED

On 20 March 2015, the Company issued convertible notes with principal amount of HK$637,000,000 ("Existing Convertible Notes") to New Alexander Limited, which is an independent third party of the Group.

The initial conversion price of the Existing Convertible Notes was HK$0.12 per share, subject to anti-dilutive adjustment, the Existing Convertible Notes bear interest at 2% per annum, payable semi-annually in arrears on 30 June and 31 December in each year, and will mature on 31 December 2018. The holders of the Existing Convertible Notes shall have the right to convert the whole or any part of the principal amount of the Existing Convertible Notes into ordinary shares of the Company, at any time between the date of issue of the Existing Convertible Notes and 31 December 2018.

The Existing Convertible Notes contain two components, liability and embedded derivatives. The liability component is classified as current liabilities and carried at amortised cost using the effective interest method. The embedded derivatives component is classified as current liabilities and carried at fair value. The effective interest rate of the liability component for the Existing Convertible Notes is 11.80% per annum.

The conversion price of the Existing Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issued under open offer and bonus issue of warrants. Furthermore, the conversion price of the Existing Convertible Notes was adjusted to HK$0.20 from the close of business on 23 February 2017 and to HK$0.17 on 4 March 2017 upon completion of the share consolidation and the rights issue as detailed in note 14.

The fair value of the embedded derivatives portion of the Existing Convertible Notes that are not traded in active markets is determined using valuation techniques. The Group estimates the fair value of the embedded derivatives portion based on the independent professional valuation using the binomial lattice model which requires various sources of information and assumptions. The inputs to this model are taken from observable markets, but where this is not feasible, a degree of judgement is required in establishing the fair value.

The following key inputs and data were applied to the binomial lattice model for the derivatives embedded in the Existing Convertible Notes at 31 December 2017 and 2016.

	At 31/12/2017	At 31/12/2016
Share price	**HK$0.037**	HK$0.100
Conversion price	**HK$0.17**	HK$0.10
Risk free rate	**1.06%**	1.08%
Expected dividend yield	**Nil**	Nil
Annualised volatility	**84.35%**	74.59%

During the year ended 31 December 2017, Existing Convertible Notes with principal amount of HK$122,000,000 (2016: HK$15,000,000) were redeemed, together with a discount of HK$2,440,000 (2016: HK$300,000) provided by Existing Convertible Notes holder, resulting in a loss of HK$5,455,000 (2016: gain of HK$1,640,000) which was recognised in the consolidated statement of profit or loss.

The movements of the embedded derivatives portion (at fair value) and liability portion (at amortised cost) of the Existing Convertible Notes as follows:

Existing Convertible Notes due on 31 December 2018

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal amount of HK$502,000,000) as at 1 January 2016	193,493	376,402	569,895
Imputed interest charged to consolidated statement of profit or loss	–	43,817	43,817
Decrease in fair value credited to consolidated statement of profit or loss	(83,295)	–	(83,295)
Redemption (with principal amount of HK$15,000,000)	(4,357)	(11,983)	(16,340)
Interest paid	–	(5,046)	(5,046)
Carrying amount of convertible notes (with principal amount of HK$487,000,000) as at 31 December 2016 and 1 January 2017	105,841	403,190	509,031
Imputed interest charged to consolidated statement of profit or loss	–	37,875	37,875
Decrease in fair value credited to consolidated statement of profit or loss	(92,938)	–	(92,938)
Redemption (with principal amount of HK$122,000,000)	(11,567)	(102,538)	(114,105)
Interest paid	–	(9,133)	(9,133)
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 31 December 2017	1,336	329,394	330,730

At 31 December 2017, Existing Convertible Notes with principal amount of HK$365,000,000 remained outstanding.

On 2 February 2018, the Company entered into a conditional agreement ("Convertible Notes Restructuring Agreement") with the noteholder to restructure the terms of the Existing Convertible Notes issued by the Company. Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, the Company will issue new convertible notes with principal value of HK$365,000,000 ("New Convertible Notes") for settlement of the Existing Convertible Notes.

The New Convertible Notes will be convertible into ordinary shares of the Company at initial conversion price of HK$0.05 (subject to adjustments at any time during the period, commencing from the issue date), will bear interest at the coupon rate of 2% per annum and will mature on 31 December 2021. At the date of this announcement, the restructuring of convertible notes has not been completed.

14. SHARE CAPITAL

	Number of ordinary shares	Share capital
		HK$'000
Issued and fully paid		
At 1 January 2016	5,700,358,074	1,831,702
Issue of shares upon exercise of warrants	687,366,487	62,550
At 31 December 2016 and 1 January 2017	6,387,724,561	1,894,252
Share consolidation *(note (a))*	(3,193,862,281)	–
Issue of new shares under rights issue, net of share issue expenses *(note (b))*	1,596,931,140	137,972
Issue of shares upon exercise of warrants	30,000	3
At 31 December 2017	4,790,823,420	2,032,227

Notes:

(a) Share consolidation

On 16 January 2017, the director of the Company proposed that every two issued shares of the Company be consolidated into one consolidated share (the "Consolidated Share(s)"). The share consolidation was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 23 February 2017. As all the conditions precedent to the share consolidation have been fulfilled, the share consolidation became effective on 24 February 2017.

(b) Issue of new shares under rights issue

On 28 March 2017, the Company allotted 1,596,931,140 new ordinary shares on the basis of one rights share for every two Consolidated Shares at a subscription price of HK$0.09 per rights share. Net proceeds of approximately HK$137,972,000 were used for the repayment of unlisted corporate bonds issued by the Company and as the general working capital of the Group.

All the new shares issued during the year ended 31 December 2017 and 2016 ranked pari passu with the then existing shares in all respects.

15. WARRANTS

On 1 December 2015, the Company issued a total of 1,138,635,658 bonus warrants ("2015 Warrants") on the basis of one bonus warrant for every five shares of the Company held by the shareholders on 18 November 2015. The holders of these 2015 Warrants are entitled to subscribe in cash at any time during the period commencing from 1 December 2015 to 30 November 2016 (both dates inclusive) for 1,138,635,658 ordinary shares at an initial subscription price of HK$0.091 per share (subject to adjustment).

During the year ended 31 December 2016, 687,366,487 ordinary shares were issued for cash at the subscription price of HK$0.091 per share pursuant to the exercise of the 2015 Warrants. There were no 2015 Warrants outstanding as at 31 December 2016 as they had lapsed on 30 November 2016.

On 11 May 2017, the Company issued a total of 958,158,684 new bonus warrants ("2017 Warrants") on the basis of one bonus warrant for every five shares of the Company held by the shareholders on 24 April 2017. The holders of these 2017 Warrants are entitled to subscribe in cash at any time during the period commencing from 11 May 2017 to 10 May 2018 (both dates inclusive) for 958,158,684 ordinary shares at an initial subscription price of HK$0.093 per share (subject to adjustment).

During the period from 11 May 2017 to 31 December 2017, 30,000 ordinary shares were issued for cash at the subscription price of HK$0.093 per share pursuant to the exercise of the 2017 Warrants. At 31 December 2017, the outstanding number of 2017 Warrants are 958,128,684.

16. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2017 not provided for in the consolidated financial statements were as follows:

	2017	2016
	HK$'000	*HK$'000*
Production sharing contract:		
– Contracted but not provided for	**23,179**	4,385

On 21 August 2017, Can-Elite entered into the fourth modification agreement to the modified PSC with China United. Pursuant to the fourth modification agreement, the well count required to be completed in Area A during the exploration period (a period up to the date of approval by the relevant authorities under the PRC government for the overall development program) has increased from at least two U-shaped connected wells to at least four U-shaped connected wells. Further, the exploration period of Area B has been extended for three more years, from the original expiry date (being 31 March 2017) to 31 March 2020. During the extended exploration period, at least 15 wells are required to be completed in Area B with the performance of relevant exploration works such as fracturing, drainage and extraction. In order to complete the above exploration works, Can-Elite is required to utilise at a minimum of RMB8,000,000 equivalent in US dollars per year towards Area A and at a minimum of RMB30,000,000 equivalent in US dollars towards Area B, respectively, as the expected minimum exploration expenditure amount.

(b) At 31 December 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2017	2016
	HK$'000	*HK$'000*
Within 1 year	**1,334**	1,981
After 1 year but within 5 years	**351**	1,013
	1,685	2,994

Operating lease payments represent rentals payable by the Group for certain office premises in Hong Kong and the PRC. Leases and rentals are negotiated and fixed respectively for an average term of two years. The Company had no other material operating lease commitments at the end of both reporting periods.

17. CONTINGENCIES

(a) Legal proceedings

At the end of the reporting period, the Group had escrow monies in the sum of HK$85,000,000 placed at a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group. Despite the repeated requests served to K&L Gates for the release of the escrow monies, the Group had not received the escrow monies. It was reported that a partner in K&L Gates was arrested by the Hong Kong Police and was charged with theft and forgery with respect to escrow monies held in escrow accounts; the case was concluded in the Court of First Instance when the partner pleaded guilty and was sentenced to 12 years' imprisonment. The Group has instituted legal proceedings against K&L Gates, claiming for the return of the escrow monies. If the actual recoverable amount is less than expected, a material impairment loss may arise.

(b) Environmental contingencies

The Group has not incurred any significant expenditure for environment remediation and is currently not involved in any environmental remediation. In addition, the Group has not accrued any amounts for environmental remediation relating to its operations. Under existing legislation, management believes that there are no probable liabilities that will have a material adverse effect on the financial position or operating results of the Group. The PRC government, however, has moved and may move further towards more rigorous enforcement of applicable laws and towards the adoption of more stringent environmental standards. Environmental liabilities are subject to considerable uncertainties which affect the Group's ability to estimate the ultimate cost of remediation efforts. These uncertainties include: (i) the exact nature and extent of the contamination at various sites including, but not limited to mines, concentrators and smelting plants irrespective of whether they are operating, closed or sold; (ii) the extent of required cleanup efforts; (iii) varying costs of alternative remediation strategies; (iv) changes in environmental remediation requirements; and (v) the identification of new remediation sites. The amount of such future costs is not determinable due to such factors as the unknown magnitude of possible contamination and the unknown timing and extent of the corrective actions that may be required. Accordingly, the outcome of environmental liabilities under proposed or future environmental legislation cannot be reasonably estimated at present, and could be material.

18. EVENTS AFTER THE REPORTING PERIOD

On 2 February 2018, the Company has entered into the conditional Convertible Notes Restructuring Agreement with the noteholder, pursuant to which the noteholder has agreed to a consensual restructuring of its rights and obligations under the Existing Convertible Notes. At the date of this announcement, the restructuring of convertible notes has not been completed.

EXTRACTS FROM INDEPENDENT AUDITOR'S REPORT

The following is an extract of the independent auditor's report on the Group's consolidated financial statements for the year ended 31 December 2017.

Opinion

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2017, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

Material Uncertainty Related to Going Concern

The accompanying consolidated financial statements for the year ended 31 December 2017 have been prepared assuming that the Group will continue as a going concern. We draw attention to note 3(b), to the consolidated financial statements which indicated that the Group incurred a net loss of approximately HK$304,147,000 for the year ended 31 December 2017, and as of that date, the Group recorded net current liabilities of approximately HK$348,789,000. These conditions, along with other matters as set forth in note 3(b) to the consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern. Our opinion is not modified in respect of this matter.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2017, the Group was mainly engaged in coalbed methane ("**CBM**") exploration and production in the People's Republic of China (the "**PRC**"), electronic components trading and treasury businesses. Though revenue generated from electronic components trading accounted for about 87.47% of the Group's total revenue for the year, the Group will continue to focus and put resources on CBM exploration and production business.

Coalbed Methane Business

The Group explores, develops and produces CBM in Anhui Province with a total exploration area of 567.843 square kilometres. As at the end of the year of 2017, the CBM operation was still in exploration stage, a total of 42 exploration wells were drilled and 7 of which have been put into production, as such there were only marginal contributions from the CBM business for the year. Total revenue generated from the CBM business was HK$1,418,000 (2016: HK$2,000,000), despite the fact that there is a fair value gain on the embedded derivative portion of the convertible notes of HK$92,938,000 (2016: HK$83,295,000), a loss of HK$351,802,000 (2016: HK$415,349,000) was recorded mainly due to the amortisation of production sharing contract (the "**PSC**") of HK$64,663,000 (2016: HK$81,839,000), the imputed interest on convertible notes of HK$37,875,000 (2016: HK$43,817,000), and the impairment loss on PSC of HK$323,032,000 (2016: HK$341,771,000) which was resulted from the delay on the implementation of the business plan for exploration and exploitation of the CBM and the continuous low level of domestic natural gas price in the PRC.

The Group, through its wholly-owned subsidiary, Canada Can-Elite Energy Limited ("**Can-Elite**"), entered into the PSC with China United Coalbed Methane Corporation Limited ("**China United**"), a state-owned company wholly-owned by China National Offshore Oil Corporation and authorised by the PRC government to partner with foreign companies to explore, develop and produce CBM assets. Pursuant to the PSC, Can-Elite is the operator of the Anhui CBM assets and hold 70% of participating interests in the PSC for a term of 30 years starting from 2008.

In December 2015, Can-Elite and China United entered into the third modification agreement, under which the contract area is divided into Area A (part of Luling Block with an area of 23.686 square kilometres that has its proven reserves submitted) and Area B (primary part of Su'nan Block with an area of 544.157 square kilometres, which the proven reserve yet to be submitted). Both parties further stipulated that Area A will start production with effect from the day the overall development proposal ("**ODP**") approved by relevant authorities of the PRC government; the exploration period of Area B has been postponed to 31 March 2017. In August 2017, Can-Elite has entered into the fourth modification agreement with China United as both parties recognised the improved business prospects of the coalbed methane business in Anhui Province of the PRC, pursuant to which the exploration period of Area B has been extended for three more years, from the original expiry date (being 31 March 2017) to 31 March 2020.

Area A

Following the completion of exploration work which led to the gathering of underground proven reserves of 3.158 billion cubic metres for the first time, pilot testing and ODP preparation stages have commenced. There were 7 wells that remain in continuous production. The pair of U-shaped horizontal wells which was implemented at Area A has been converted into two independent drilled wells, one being a conventional vertical well and the other a cavity well. The adoption of the cavity well was a first in the region, and was currently at drainage and extraction observation stage. Simultaneously, surface gathering and sales preparation for CBM have commenced. The Group, through its wholly-owned subsidiary, has incorporated Can-Elite Coalbed Gas (Anhui) Co ("**Can-Elite (Anhui)**") at the Economic Development District of Suzhou to engage in the gathering, compression, canning, processing and transportation of gas explored from the wells. Can-Elite (Anhui) has installed a temporary collection device to capture compressed CBM at a well group in Area A to increase the amount of external sales for the gas produced within the collaborative blocks, laying the foundation for mass production and sales for this project. In 2017, development plans, ground engineering proof and market research have all commenced simultaneously, and Can-Elite has prepared an "Analysis Report for the Comprehensive Development Proposal, Development Prospect and Business Value of the Coalbed Methane Collaborative Blocks in Luling District of Suzhou, Anhui Province", which provided the fundamental detail of future development objectives, targets, phrases, investment and commercial prospects of the Luling Gas Field Project; signed a drilling service agreement to commence classification fracturing process of coal seam roof for high yield pilot horizontal wells; and made detailed arrangements on surface gathering treatment and sales of CBM.

Area B

A 2D seismic survey was undertaken which covered a total of 81 kilometres and 21 drilled wells. The Group commenced deep drilling of exploration wells at the deeper zones of Su'nan Block in Area B based on results from the 2D seismic survey report, and will determine whether to carry out the fracturing transformation process through analysing of geological observations. Fundamental geological survey for CBM in the area was further expanded and the distributions of CBM resources in Su'nan were more thoroughly understood. At the same time, as a requirement for preparing the reserves report, drillings were performed in Area B by phases, and each group of drilled wells has undergone multi-layer drainage and extraction testing, secondary fracturing transformation process, drainage and extraction observation and evaluation analysis process, which will enable the capture of additional proven underground reserves. On top of the 9 production pilot wells from previous stage, there were 9 vertical wells newly drilled in 2017, with a total drill distance of 11,140 metres and total core length of 650 metres into the coal seam. Testing was performed on the cores of the coal seam for gas content and random testing was carried out on typical black mudstones and sandstones that were shown to contain gas. Comprehensive well logging interpretation and well logging were made on all the wells, in which a number of exploration results data were obtained. Preliminary results stated that the southern part of Su'nan contains multiple coal seams of uneven thickness, the main coal seam of which contains 8-13 cubic metres of gas per tonne, making it a favourable area for CBM development with its relatively large coalbed gas resources and development potential, and has provided a clear direction for next phase exploration, evaluation, reserves reporting, development and planning.

Treasury Business

The treasury business includes securities trading and money lending businesses.

The Group adopts a prudent approach for all its investments with the view for short to medium term profit. At 31 December 2017, the Group held an investment portfolio of listed securities in Hong Kong with an aggregate amount of approximately HK$29,599,000. During the year, the Group recorded a net unrealised loss of approximately HK$14,907,000 (i.e. unrealised gains of approximately HK$482,000 and unrealised losses of approximately HK$15,389,000). The unrealised loss was mainly attributable to the Group's investment in Styland Holdings Limited ("**STYLAND**"). Details of the investments in STYLAND are as follows:

		For the year ended 31 December 2017		At 31 December 2017			At 31 December 2016
	Fair Value Gain (Loss) *HK$'000*	**Approximate percentage of fair value loss on held-for-trading investments**	**Approximate percentage of fair value gain on held-for-trading investments**	**Market value** *HK$'000*	**Approximate percentage of held-for-trading investments**	**Approximate percentage to the net assets**	**Market value** *HK$'000*
STYLAND							
– shares	(15,359)	99.81%	–	27,399	92.57%	4.55%	42,057
– warrants	482	–	100%	481	1.62%	0.08%	–
TOTAL	(14,877)	99.81%	100%	27,880	94.19%	4.63%	42,057

STYLAND is principally engaged in investment holdings, financial services, mortgage financing, property development and investment and trading of securities.

With the launch of the Shenzhen-Hong Kong Stock Connect in December 2016 and the Bond Connect to follow in 2017, the Board believes that the financial services business, especially the securities trading business, in the sectors of banking and financial will have a good prospect. As such, the Board believes that the performance of the investments the Group invested will continue to contribute positive return to the Group in the near future. The Board will continue to identify any investment opportunities and manage the investment portfolio in accordance with the Group's investment objective and policy with a view of gaining good investment yields for our shareholders. The Board will monitor market development closely with a view of identifying attractive and short to medium term investment opportunities.

The Group carries its money lending business by providing both secured and unsecured loans to corporate and individual customer. Strict internal policies for granting and on-going review of the loan are established so as to ensure the business risk is manageable. Moreover, to meet the statutory requirements, which include the additional licensing conditions of money lenders licence applicable with effect from 1 December 2016 imposed by the Hong Kong government to ensure better protection of borrowers and to enhance transparency and disclosure, and to cope with the complexity of business environment, regular review and updates of internal policy are performed.

During the year, revenue generated from this segment (i.e. interest income) decreased to approximately HK$670,000 from HK$1,130,000 in 2016.

Electronic Components Business

The Group continued to be affected by the weak global demand dragged on the consumables market, as a result, revenue generated from the electronic components segment dropped substantially to HK$14,581,000, which represent a 28.48% decrease as compared to year 2016. The Group will regularly review the range of products distributed to confront with the increasingly difficult business environment so as to generate stable revenue and return. However, it shall be expected that the situation will not be improved in the short run.

PROSPECTS

CBM is a quality, clean and efficient natural gas resource stored in coal seams. With the exploitation and utilisation plan of CBM become crystallised, it has strengthened the prevention on coal mine accidents and reduced air pollution. It also helped alleviate the problem of energy shortage and secured the provision of clean energy, as such the government has been paying more attention to CBM businesses. Despite fluctuation in the global oil and gas industry in recent years, the PRC government has continuously introduced policies and plans to support the development of the CBM industry, and along with ceaseless technology breakthroughs, continuous increase in new reserves and improvements in various complementary conditions, have contributed to better prospect for CBM industry in the PRC. Over the past five years, the natural gas market of the PRC has maintained a faster growth in terms of consumption demand, import and domestic production volumes; and during the same period, domestic reserves, production volume and market demand for CBM have all increased at a much faster rate than the natural gas industry in general.

The PRC government encourages the production and consumption of natural gas and the exploration and exploitation of CBM. Li Keqiang, Premier of the PRC, has emphasised in the "Report on the Work of the Government (2016)" the need to vigorously curb the haze problem; promote the use of electricity and natural gas in place of coal; increase the supply of natural gas and heighten the proportion of clean energy. The "Report on the Work of the Government (2017)" further specified the following aims: advance structural reform in the power, oil and gas sectors and open their competitive operations to the private sector; make our skies blue again; prioritise the integration of clean energy sources into the electric grid. The "Report on the Work of the Government (2018)" emphasised that "to make greater progress in addressing pollution; to consolidate the gains made in the fight to defend the blue of our skies; to cut sulfur dioxide and nitrogen oxide emissions by 3 percent in this year; to make major efforts to develop green energy."

Pursuant to the "Thirteenth Five-Year Plan on Oil and Natural Gas Development" promulgated by the National Development and Reform Commission of the PRC, the Beijing-Tianjin-Hebei region, Yangtze River Delta, Pearl River Delta and the northeast region were to be the key regions to push forward the "coal-to-gas" conversion projects in key cities, expand the zone of prohibition in the use of high polluting fuel in the cities, and promote vigorously the replacement with natural gas. Preliminary statistics indicate that consumption volume of natural gas was 231.4 billion cubic metres for 2017, representing an increase of 33.2 billion cubic metres or 16.8% as compared with the corresponding period. Increase for the year more than doubled the average annual increase between 2010 and 2016, reflecting an explosive growth in natural gas consumption.

In the winter of 2017, affected by the country's efforts to increase air pollution control and the implementation of a strict "coal-to-gas" policy, the northern part of PRC has experienced one of the worst "gas shortage" in history as there were lack of gas supply in many cities and a temporary upsurge in prices for natural gas and liquefied natural gas (LNG) in various places. The government has been strengthening its regulation and control while searching for more gas sources to primarily protect people's livelihood. The "gas shortage" incident has prompted the society to pay utmost attention to the development of natural gas (including unconventional gas such as coalbed methane). It is expected that upstream, midstream and downstream companies within the natural gas industries engaging in gas exploration, development, transportation, purchasing, storage, etc., whether they are located in the capital or in local areas or a state-owned, privately-owned or foreign-owned company, shall enter a new cycle of concentrated development. The Ministry of Finance of the PRC promulgated the "Notice regarding the Subsidy Standard for Development and Utilisation of Coalbed Methane (Gas) during the course of the 'Thirteenth Five-Year Plan'" in February 2016, pursuant to which the subsidy for CBM was raised from the original RMB0.20 per cubic metre to RMB0.30 per cubic metre. In May 2017, the State Council of the PRC has stated at an executive meeting that the tax rate of value-added tax on natural gas will reduce from 13% to 11%, which has further stimulated the use of natural gas and promoted the market-oriented reform of natural gas. On 23 June 2017, the "Opinions on Accelerating the Utilisation of Natural Gas" jointly issued by thirteen ministries and commissions including the National Development and Reform Commission set forth a clear objective, which was to gradually cultivate natural gas as one of the main energy sources in the PRC's modern clean energy system. The proportion of natural gas in the primary energy consumption structure shall aim to reach about 10% by 2020, forming an underground natural gas storage with effective working gas capacity of 14.8 billion cubic metres. By 2030, the proportion of natural gas in the primary energy consumption structure shall aim to reach about 15%, forming an underground natural gas storage with effective working gas capacity of above 35 billion cubic metres. Four key tasks will also be executed, namely the urban gas project, natural gas power generation project, industrial fuel upgrading project and transport fuel upgrading project.

In addition to a series of significant policies introduced by the PRC government, in an unprecedented action, provinces and cities throughout the country have also put great efforts in developing local natural gas industry to ensure the implementation of natural gas development strategy and ecological environmental strategy, for example, Guizhou Provincial Government has launched a policy to subsidise the extraction of coalbed methane, pursuant to which the local government will subsidise an additional RMB0.2 per cubic metre on top of the RMB0.3 per cubic metre subsidy from the state. Provincial governments of Shanxi, Henan, Hubei and Hunan have also taken a leading role in launching policies and an increased effort regarding the exploration and development of unconventional gas. In July 2017, the People's Government of Anhui Province of the PRC has promulgated the "Construction Planning of Oil and Gas Pipeline Network Infrastructure in Anhui Province (2017-2021)", which specified that an aggregate amount of RMB23.4 billion would be invested from 2017 to 2021 and the construction of natural gas infrastructures in provincial-level such as pipelines and oil products pipeline network will be accelerated, which would form the frameworks for integration, networking and intellectualisation, achieve natural gas pipeline connection in every county and commence natural gas pipeline transmission and independent gas supply projects in every town, thereby increase scale of supply in state's gas pipelines and enable multiple gas (such as pipeline gas, liquefied natural gas (LNG) and coal gas) supply.

The Group's CBM contract area in Anhui Province is located at developed areas in the eastern and coastal regions of the PRC, representing a prominent market advantage. To date, it is the only company engaging in the exploration and development of CBM (an unconventional gas) in Anhui Province. After almost 10 years of collaboration in exploration, it demonstrates a brighter prospect for resources and an expected commercial value. Currently, it is at the turning point from completing the exploration to gradual commercial development. Can-Elite shall seize the important opportunity presented by the state and local development in natural gas industry, and strive to expand and strengthen the CBM projects in Huaibei.

Heading into 2018, the Group will continue to enforce the contract with China United, to focus our strength in accelerating for new breakthroughs in terms of reserves and production volume through achieving the objectives of "production capacity improvement in Area A, and obtaining of reserves in Area B" and make full preparation to promptly achieve commercial development. Furthermore, accelerate the transformation from exploration to commercial production to deliver investment return to the Group as soon as possible. First of all, the Group will make preparation for the development of and run tests in Area A. By leveraging on the established domestic and foreign technologies, tests would be performed on multiple group of hydraulic fracturing wells and construction of pipeline network, storage, transmission and compression pipes in wells would be completed, with an aim to achieve a breakthrough in the trial production and sale of CBM in 2018. Secondly, the Group will commence preparation of the ODP for Area A (i.e. Luling Gas Field). Thirdly, regarding the favourable area in southern part of Su'nan, the Group will complete supplemental follow-up works on exploration and gas testing, satisfy the reporting conditions for proven reserves, continue to prepare the reserves report and obtain approval on additional proven reserves as soon as possible. Fourthly, the Group will contemplate new ideas in view of the "multi-layer, thin and unevenly distributed" characteristics of the coalbed in the area, continue to perform in-depth survey on the geological conditions for ore formation and the potential resources in the whole area, make advance plan in relation to the exploitation methods of CBM in southern part of Su'nan, and advance into the development, testing and trial production and sale stages as soon as possible.

At the same time, based on the latest CBM blocks announced by China United, the Group and its subsidiary, Can-Elite, will actively explore and seek to engage new cooperation opportunities. The Group will also continue with the relevant agreement in actively implementing the strategic cooperation with Coal Geology Bureau of Henan Province and Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd., conduct cooperation feasibility study on such CBM blocks, actively request for government supports and strengthen the protection of our technology. In addition, it will make practical efforts in further promoting the cooperation with Hainan Province Construction Group Corporation Limited and its subsidiary, Hainan Province Construction Industrial Company Limited.

The Group will also closely monitor the development of its electronic components business and treasury business for a reasonable application of the Group's resources to benefit the Group and its shareholders.

FINANCIAL REVIEW

The Group's revenue for the year was HK$16,669,000 (2016: HK$23,518,000), representing a decrease of 29.12%. Such decrease of revenue was mainly due to the decrease of contribution from the electronic components business which resulted from the slowdown of retail market as a whole. The revenue generated by the sale of electronic components decreased by 28.48% from HK$20,388,000 in 2016 to HK$14,581,000 in 2017, representing 87.47% of the Group's revenue. The CBM exploration and exploitation operating subsidiary and the treasury segment contributed HK$1,418,000 (2016: HK$2,000,000) and HK$670,000 (2016: HK$1,130,000) to the Group in 2017, representing 8.51% and 4.02% of the Group's revenue respectively. The Group recorded a gross profit of HK$2,058,000 in 2017, a decrease from HK$3,245,000 in 2016, which resulted from the decreased contribution from the treasury segment, i.e. the money lending businesses, with a comparatively higher profit margin.

The Group's loss for the year was HK$304,147,000 (2016: HK$384,535,000). Substantial part of the Group's performance was mainly due to the accounting treatments of various items, such as the impairment loss on the PSC amounted to HK$323,032,000 (2016: HK$341,771,000), loss on redemption of convertible notes amounted to HK$5,455,000 (2016: gain of HK$1,640,000), fair value gain on convertible notes' embedded derivatives amounted to HK$92,938,000 (2016: HK$83,295,000), imputed interest on convertible notes amounted to HK$37,875,000 (2016: HK$43,817,000), imputed interest on bonds amounted to HK$15,131,000 (2016: HK$11,143,000), amortisation of the PSC amounted to HK$64,663,000 (2016: HK$81,839,000), net loss on revaluation of financial assets at fair value through profit or loss amounted to HK$14,907,000 (2016: HK$43,333,000), net foreign exchange gain of HK$14,040,000 (2016: loss of HK$11,338,000), allowance for doubtful debts amounted to HK$1,046,000 (2016: HK$2,422,000), depreciation on property, plant and equipment amounted to HK$12,174,000 (2016: HK$12,594,000) and the deferred tax credit amounted to HK$99,645,000 (2016: HK$113,856,000). The aggregate net result of the abovementioned accounting loss for 2017 is HK$267,660,000 (2016: HK$349,466,000). The accounting profit and loss mentioned above did not have actual impact on the cash flow position of the Group.

For comparison purpose, the loss after tax for 2017 and 2016, if excluding those accounting profit and loss, was HK$36,487,000 and HK$35,069,000 respectively.

The Group recorded a loss attributable to owners of the Group of approximately HK$303,913,000 (2016: HK$384,448,000), and basic and diluted loss per share was approximately HK6.87 cents (2016: HK13.04 cents). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had current assets of HK$77,802,000 (2016: HK$309,441,000) and current liabilities of HK$426,591,000 (2016: HK$150,256,000) and cash and bank balances of HK$34,967,000 (2016: HK$142,515,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 18.24% (2016: 205.94%). The deterioration of current ratio was mainly due to (i) the other receivables (i.e. the Escrow Sum as detailed in section "LITIGATION" on p. 45 of this results announcement) being reclassified as non-current assets and (ii) the convertible notes with principal amount of HK$365,000,000 falling due on 31 December 2018 being reclassified as current liabilities as at 31 December 2017.

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 38.77% (2016: 42.98%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In January, March, April, May and September 2017, convertible notes with aggregate principal amount of HK$122,000,000 were redeemed by cash of HK$119,560,000 with a discount of HK$2,440,000 provided by the convertible notes holder.

In February 2017, the Company further issued three-year bonds with an aggregate principal amount of HK$5,000,000 with interest rate of 6% per annum. The net proceeds are intended to be used for the general working capital of the Group as well as future business development. During the year, bonds with aggregate principal amount of HK$87,000,000 were matured and redeemed by the Company.

In March 2017, the Company successfully raised net proceeds of approximately HK$137,972,000 by issuing 1,596,931,140 new ordinary shares on the basis of one rights share for every two consolidated shares at a subscription price of HK$0.09 per rights share. Net proceeds were utilised for the repayment of the 6% coupon unlisted corporate bonds issued by the Company which matured on or before 31 December 2017 and as the general working capital of the Group.

On 11 May 2017, a total of 958,158,684 new bonus warrants were issued by the Company on the basis of one warrant for every five shares held on 24 April 2017, being the record date for ascertaining the entitlements of shareholders to the bonus warrant issue. The holders of these new bonus warrants are entitled to subscribe in cash for 958,158,684 new shares at an initial subscription price of HK$0.093 per share at any time during the period commencing from 11 May 2017 to 10 May 2018 (both dates inclusive). If all new bonus warrants are exercised, net proceeds of approximately HK$89,109,000 will be raised. The net proceeds received as and when subscription rights are exercised will be applied towards repayment of debts and as general working capital of the Group. During the period from 11 May 2017 to 31 December 2017, 30,000 new ordinary shares were issued upon the exercise of 30,000 units of these bonus warrants. Net proceeds of approximately HK$2,790 were raised upon the exercise of the bonus warrants and were used as the general working capital of the Group.

The Group will constantly review its financial resources and will consider various plans to enhance its financial capabilities. The Group believes that to broaden its shareholders base would provide a solid ground for the Group to grow.

SHARE CONSOLIDATION

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 23 February 2017, the share consolidation on the basis that every two issued shares consolidated into one consolidated share was approved. The share consolidation was completed and became effective on 24 February 2017.

RIGHTS ISSUE

In March 2017, the Company allotted 1,596,931,140 new ordinary shares on the basis of one rights share for every two consolidated shares at a subscription price of HK$0.09 per rights share. Net proceeds of approximately HK$137,972,000 were raised and utilised as intended for the repayment of the 6% coupon unlisted corporate bonds issued by the Company which matured on or before 31 December 2017 and as the general working capital of the Group.

BONUS WARRANTS

On 11 May 2017, the Company issued a total of 958,158,684 bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on 24 April 2017. The holders of these bonus warrants are entitled to subscribe in cash at any time during the period commencing from 11 May 2017 to 10 May 2018 (both dates inclusive) for 958,158,684 new shares at an initial subscription price of HK$0.093 per share (subject to adjustment). As at 31 December 2017, 958,128,684 units of these bonus warrants remained outstanding.

RESTRUCTURING OF CONVERTIBLE NOTES DUE 2018 AND ISSUE OF NEW CONVERTIBLE NOTES DUE 2021

On 2 February 2018, the Company entered into the convertible notes restructuring agreement with New Alexander Limited (the "**Noteholder**"), pursuant to which the Noteholder agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due 31 December 2018 (the "**Convertible Notes Restructuring Agreement**"). Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, new convertible notes due 31 December 2021 will be issued for the settlement of the existing convertible notes. The restructuring of the convertible notes is subject to the shareholder's approval at an extraordinary general meeting to be held.

COMMITMENTS

Details of the commitments of the Group are set out in note 16.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

The Group mainly operated in Hong Kong and the PRC with most of the transactions settled in Hong Kong dollars, Renminbi and United States dollars; the existing currency peg of Hong Kong dollars with United States dollars will likely continue in the near future, the exposure to foreign exchange fluctuation is minimal.

The Group currently does not have a foreign currency hedging policy. However, the management monitors foreign exchange exposure and will consider hedging significant foreign currency exposure should the need arise.

CONTINGENCIES

Save as disclosed in note 17, the Group had no other contingencies as at 31 December 2017.

LITIGATION

The Group had on various dates since January 2011 placed an aggregate amount of HK$85,000,000 (the "**Escrow Sum**") with a solicitor firm in Hong Kong, namely, K & L Gates, as an escrow agent (the "**Escrow Agent**"), of which through the Company, a sum of HK$35,000,000 was intended to be used as earnest moneys to facilitate negotiation with a potential seller of a project for future investments, and under the money lending business of a subsidiary of the Company, a sum of HK$25,000,000 was advanced to a borrower as a loan which was agreed to be held in escrow by the Escrow Agent in January and a further sum of HK$25,000,000 was also advanced to a borrower as a loan in April held in escrow by the Escrow Agent.

As the entire Escrow Sum had fallen due and became payable to the Group on 24 June 2011, despite the Group's repeated requests to K & L Gates for the release of the Escrow Sum, the Group had not received the Escrow Sum. In early July of 2011, the Group, through its solicitors, took out three separate writs of summons against K & L Gates, claiming for, among other things, the return of the aforementioned three sums which amounted to the Escrow Sum, plus interest and cost. The Group had filed statements of claims and will pursue the cases vigorously.

The Directors are of the opinion, based on the legal advice sought, that the Escrow Sum can be recovered in full.

Save as disclosed above, so far as known to the Directors, there was no other litigation, arbitration or claim of material importance in which the Group is engaged or pending or which was threatened against the Group.

CHARGE ON ASSETS

The short-term bank deposits, amounted to HK$180,000, have been pledged as securities for banking facilities granted to the Group as at 31 December 2017. Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of HK$24,870,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 31 December 2017.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 18, the Group had no other material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group had 73 employees, of which 17 were in Hong Kong and 56 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, mandatory provident fund schemes for employees in Hong Kong and the state-managed employee pension schemes for employees in the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2017.

AUDIT COMMITTEE

The audit committee of the Company ("**Audit Committee**") comprises the four independent non-executive directors ("**INEDs**") of the Company, chaired by Mr. Chan Tsz Kit and the other three members are Mr. Chan Yim Por Bonnie, Mr. Albert Saychuan Cheok *(Chairman)* and Mr. Wang Li. The annual results of the Group for the year ended 31 December 2017 have been reviewed by the Audit Committee.

PRELIMINARY ANNOUNCEMENT OF ANNUAL RESULTS

The figures in respect of the preliminary announcement of the results of the Group for the year ended 31 December 2017 have been agreed to the amounts set out in the consolidated financial statements for the year by the auditor of the Company, HLM CPA Limited ("**HLM**"). The work performed by HLM in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by HLM on the preliminary announcement.

COMPLIANCE WITH CODE ON CORPORATE GOVERNANCE PRACTICES

During the year, the Company had complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities (the "**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with an exception of code provisions A.4.1 and A.6.7, details of which will be explained below. In order to protect and enhance the benefits of the shareholders, the Board and its executive management will continue to monitor and review the governance policies so as to ensure that such policies comply with the increasingly stringent regulatory requirements.

Non-executive Directors (Deviation from Code Provision A.4.1)

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. None of the existing INEDs of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, more than one-third of the Directors (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the Articles of Association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

Attendance of non-executive Directors at general meetings (Deviation from Code Provision A.6.7)

Under the code provision A.6.7, independent non-executive directors and other non-executive directors, as equal board members, should give the board and any committees on which they serve the benefit of their skills, expertise and varied backgrounds and qualifications through regular attendance and active participation. They should also attend general meetings and develop a balanced understanding of the views of shareholders.

Due to personal and/or other overseas commitment, Mr. Wang Li, an INED, did not attend the extraordinary general meetings held on 23 February 2017 and 12 April 2017 and the annual general meeting held on 7 June 2017, which constitutes a deviation from the code provision A.6.7 during the year. However, at the respective general meetings of the Company, there were executive Directors and INEDs of the Company present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

The Company has adopted a code of conduct regarding the directors' securities transactions on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors (the "**Model Code**") set out in Appendix 10 of the Listing Rules. Having made specific enquiry to all the Directors, they confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors' securities transactions throughout the year.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

Neither the Company nor any of its subsidiary companies had purchased, sold or redeemed any listed securities of the Company during the year.

ANNUAL GENERAL MEETING

The annual general meeting of shareholders of the Company will be held upon despatch of the annual report. The notice of annual general meeting will be published and despatched to the shareholders in due course.

PUBLICATION OF RESULTS ANNOUNCEMENT AND ANNUAL REPORT

The Company's results announcement for the year ended 31 December 2017 containing all information required by Appendix 16 of the Listing Rules is published on the websites of the Stock Exchange at www.hkexnews.hk and the Company at www.intl-standardresources.com. The annual report will be despatched to the shareholders and published on the above websites in due course.

ACKNOWLEDGEMENT

On behalf of the Board, I would like to take this opportunity to express my sincere thanks to our shareholders for their support over the past year and to our staff for their contributions and diligence.

By order of the Board
International Standard Resources Holdings Limited
Albert Saychuan Cheok
Chairman

Hong Kong, 28 March 2018

As at the date of this announcement, the executive directors of the Company are Mr. Cheng Wai Keung, Mr. Tam Tak Wah and Ms. Tsang Ching Man and the independent non-executive directors of the Company are Mr. Chan Tsz Kit, Mr. Chan Yim Por Bonnie, Mr. Albert Saychuan Cheok (Chairman) and Mr. Wang Li.