INTERNATIONAL STANDARD RESOURCES 標準資源

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)

ANNOUNCEMENT OF ANNUAL RESULTS FOR THE YEAR ENDED 31 DECEMBER 2018

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 2018 as follows:

CONSOLIDATED STATEMENT OF PROFIT OR LOSS
FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Revenue	3	**9,109**	16,669
Cost of sales		**(8,181)**	(14,611)
Gross profit		**928**	2,058
Other income		**1,290**	1,937
Other gains and losses	4	**(59,876)**	87,821
Administrative expenses		**(50,754)**	(53,711)
Amortisation of production sharing contract	9	**(51,228)**	(64,663)
Reversal of impairment losses (impairment losses) on trade receivables		**90**	(1,046)
Impairment loss on production sharing contract	9	**(454,192)**	(323,032)
Loss from operations		**(613,742)**	(350,636)
Finance costs	5(a)	**(44,132)**	(53,006)
Loss before tax	5	**(657,874)**	(403,642)
Income tax	6	**127,083**	99,495
Loss for the year		**(530,791)**	(304,147)
Attributable to:			
Owners of the Company		**(530,452)**	(303,913)
Non-controlling interests		**(339)**	(234)
		(530,791)	(304,147)
			(Restated)
Loss per share	8		
Basic and diluted *(HK$ per share)*		**(1.11)**	(0.69)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018	2017
	HK$'000	*HK$'000*
Loss for the year	**(530,791)**	(304,147)
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(33,081)**	66,834
Other comprehensive (expense) income for the year, net of income tax	**(33,081)**	66,834
Total comprehensive expenses for the year	**(563,872)**	(237,313)
Attributable to:		
Owners of the Company	**(563,533)**	(237,079)
Non-controlling interests	**(339)**	(234)
	(563,872)	(237,313)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Non-current assets			
Property, plant and equipment		**94,201**	99,208
Intangible assets	9	**526,196**	1,085,886
Other receivables	10	**–**	85,000
Financial assets at fair value through profit or loss		**1,000**	–
Available-for-sale financial assets		**–**	1,000
		621,397	1,271,094
Current assets			
Loan receivables		**–**	5,510
Financial assets at fair value through profit or loss		**10,010**	29,599
Trade and other receivables	10	**53,040**	3,452
Cash and bank balances		**6,374**	34,967
		69,424	73,528
Asset classified as held for sale		**–**	4,274
		69,424	77,802
Current liabilities			
Other borrowing, unsecured		**11,267**	11,814
Trade and other payables	11	**46,813**	56,387
Bonds	12	**46,665**	23,919
Promissory notes	13	**14,228**	–
Convertible notes – liability portion, unsecured	14	**–**	329,394
Convertible notes – embedded derivatives, unsecured	14	**–**	1,336
Tax payables		**5,365**	3,741
		124,338	426,591
Net current liabilities		**(54,914)**	(348,789)
Total assets less current liabilities		**566,483**	922,305

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	**2018** **HK$'000**	2017 *HK$'000*
Non-current liabilities			
Other payables	11	**16,072**	–
Bonds	12	**4,777**	49,879
Promissory notes	13	**5,012**	–
Convertible notes – liability portion, unsecured	14	**231,831**	–
Convertible notes – embedded derivatives, unsecured	14	**142,598**	–
Deferred tax liabilities		**127,743**	270,199
		528,033	320,078
Net assets		**38,450**	602,227
Capital and reserves			
Share capital	15	**2,032,322**	2,032,227
Reserves		**(1,989,338)**	(1,425,805)
Equity attributable to owners of the Company		**42,984**	606,422
Non-controlling interests		**(4,534)**	(4,195)
Total equity		**38,450**	602,227

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2018

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 “Stock Exchange”). The address of the 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 2018 and 2017 included in this preliminary announcement of annual results 2018 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 2017 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 2018 in due course.

The Company’s auditor has reported on the financial statements of the Group for both years. For the year ended 31 December 2017, the auditor’s report was unqualified with a material uncertainty related to going concern; and did not contain a statement under sections 406(2), 407(2) or (3) of the Companies Ordinance. For the year ended 31 December 2018, the auditor’s report was a disclaimer of opinion, the details of which are set out in this announcement under “Extracts from Independent Auditor’s Report” and contains a statement under section 407(3) of the Hong Kong 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 on the Stock Exchange.

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 net loss of attributable to owners of the Company approximately HK$530,452,000 and a net cash outflow from operating activities of approximately HK$32,313,000 for the year ended 31 December 2018. As at the same date, the Group's current liabilities exceeded its current assets by approximately HK$54,914,000 and its total borrowings amounted to approximately HK$456,378,000 while its cash and cash equivalents amounted to approximately HK$6,161,000, net of restricted bank balance and pledged bank deposits of approximately HK$213,000. As at 31 December 2018, the Group recorded outstanding bonds of approximately HK$46,665,000 and promissory notes of approximately HK$14,228,000 which are due for repayment within the next twelve months. In addition, as at the same date, the Group recorded outstanding bonds of approximately HK$4,777,000 and promissory notes of approximately HK$5,012,000 under non-current liabilities, which are due for repayment in 2020. Moreover, numerous legal claims were filed by its creditors in the PRC to demand repayments of the overdue payables of approximately RMB6,838,000 (equivalent to approximately HK$7,788,000) as explained further in note to the consolidated financial statements.

These conditions indicate the existence of a material uncertainty that might cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise the Group's asset and discharge the Group's liabilities in the normal course of business.

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration of the followings:

(i) The Group and the escrow agent have resolved the disputed matter as disclosed in the announcement of the Company dated 22 March 2019. The other receivable from escrow agent has been fully settled after the end of the reporting period;

(ii) An independent licensed money lending company has granted loan facilities of HK$50,000,000 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 statements. Up to the date of approval of these consolidated financial statements, loan facilities has not been utilised under this arrangement;

(iii) The Group has certain promissory notes with aggregate principal amount of HK$13,500,000 will be matured during the year 2019. In March 2019, they were extended to maturity date in year 2020;

(iv) The Group has certain bonds with aggregate principal amount of HK$48,000,000 will be matured during the year 2019. In March 2019, the bonds with aggregate principal amount of HK$10,000,000 has been extended to maturity date in year 2022;

(v) The Group will seek to obtain additional financing including but not limited to rights issue, open offer, placing of the new shares and issuance of bonds;

(vi) The Group will continue to negotiate with the Group's bondholders/creditors with a view to extend the repayment terms of the Group's current liabilities as they fall due; and

(vii) The directors of the Company will continue to implement measures aiming at improving the working capital and cash flows of the Group, including close monitoring of general administrative expenses and operating costs.

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to obtain the necessary funding and achieve the plans and measures above. The Group's ability to continue as a going concern would depend upon (i) whether the Group is able to obtain financing when required, the attainability depends on the performance of the Group; (ii) whether the Group is able to generate sufficient cash flow from operations and plans to control costs, the attainability depends on the market performance.

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

2. APPLICATION OF NEW AND AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS

New and amendments to HKFRSs that are mandatorily effective for the current year

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

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

Impairment losses on financial assets were reclassified from "other gains and losses" in 2017 to conform to current year presentation as a result of consequential changes made to HKAS 1 Presentation of Financial Statements. Impairment losses on financial assets that were previously classified as other losses are now presented separately in the consolidated statement of profit or loss.

Except as described below, the application of the above new and 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.

(a) Impacts and changes in accounting policies on application of HKFRS 15 Revenue from Contracts with Customers

The Group has applied HKFRS 15 for the first time in the current year. HKFRS 15 superseded HKAS 18 Revenue, HKAS 11 Construction Contracts and the related interpretations.

The Group recognised revenue from the following major sources:

- Interest income from money lending business
- Revenue from sale of electronic components
- Revenue from sale of coalbed methane products
- Dividend income from investments

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Difference at the date of initial application, if any, is recognised in the opening accumulated losses and comparative information has not been restated.

The revenue from sale of electronic components and coalbed methane products are recognised at a point in time, interest income is accrued on a time basis and dividend income from investments is recognised when the shareholders' rights to receive payment have been established. The application of HKFRS 15 does not have significant impact on the amounts reported in the consolidated financial statements for the year 2017 and 2018.

(b) Impact and changes in accounting policies on application of HKFRS 9 Financial Instruments

In the current year, the Group has applied HKFRS 9 Financial Instruments and the related consequential amendments to other HKFRSs. HKFRS 9 introduces new requirement for (i) the classification and measurement of financial assets and financial liabilities, (ii) expected credit losses ("ECL") for financial assets and (iii) general hedge accounting.

The Group has applied HKFRS 9 in accordance with the transition provisions set out in HKFRS 9, i.e. applied the classification and measurement requirements (including impairment) retrospectively to instruments that have not been derecognised as at 1 January 2018 (date of initial application) and has not applied the requirements to instruments that have already been derecognised as at 1 January 2018. The difference between carrying amounts as at 31 December 2017 and the carrying amounts as at 1 January 2018 are recognised in the opening accumulated losses and other components of equity, without restating comparative information.

Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 39 Financial Instruments: Recognition and Measurement.

The directors of the Company reviewed and assessed the Group's financial assets as at 1 January 2018 based on the facts and circumstances that existed at that date. Changes in classification and measurement on the Group's financial assets and the impacts are detailed in "Summary of effects arising from initial application of HKFRS 9".

As at 1 January 2018, the directors of the Company reviewed and assessed the Group's existing financial assets for impairment using reasonable and supportable information that is available without undue cost or effort in accordance with the requirements of HKFRS 9. No additional credit loss allowance has been recognised in the consolidated financial statements.

Summary of effects arising from initial application of HKFRS 9

The table below illustrates the classification and measurement (including impairment) of financial assets subject to ECL under HKFRS 9 and HKAS 39 at the date of initial application, 1 January 2018.

	Available-for-sale financial assets	**Financial assets at fair value through profit or loss ("FVTPL")**
	HK$'000	*HK$'000*
Closing balance at 31 December 2017 – HKAS 39	1,000	N/A
Effect arising from initial application of HKFRS 9:		
Reclassification from available-for-sale financial assets *(note (a))*	(1,000)	1,000
Opening balance at 1 January 2018	–	1,000

Notes:

(a) From available-for-sale financial assets to FVTPL

Club debentures with a fair value of HK$1,000,000 were reclassified from available-for-sale financial assets to financial assets at FVTPL. This is because even though the Group's business model is to hold financial assets in order to collect contractual cash flows, the cash flows of these investments do not meet the HKFRS 9 criteria as solely payments of principal and interest on the principal amount outstanding.

(b) Impairment under ECL model

The Group applies the HKFRS 9 simplified approach to measure ECL which uses a lifetime ECL for all trade receivables. The ECL is assessed individually for debtors with significant balance and/or collectively with internal credit ratings.

Loss allowance for other financial assets at amortised cost, mainly comprise of loan receivables, deposits and bank balances and cash, are measured on 12-month ECL basis and there had been no significant increase in credit risk since initial recognition.

As at 1 January 2018, no additional credit loss allowance has been recognised in the consolidated financial statements.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019

[2] Effective for annual periods beginning on or after 1 January 2020

[3] Effective for annual periods beginning on or after 1 January 2021

[4] Effective date to be determined.

[5] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company do not anticipate that the application of these new and amendments to HKFRSs will have any material impact on the 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:

	2018	2017
	HK$'000	*HK$'000*
Sale of electronic components	**8,550**	14,581
Sale of coalbed methane products	**513**	1,418
Interest income from money lending	**46**	670
	9,109	16,669

(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 2018 and 2017 is set out below:

Year ended 31 December 2018

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**8,550**	**513**	**46**	**9,109**
Inter-segment revenue	**–**	**–**	**–**	**–**
Reportable segment revenue	**8,550**	**513**	**46**	**9,109**
Reportable segment results	**(1,440)**	**(574,086)**	**(55,459)**	**(630,985)**
Amortisation of production sharing contract	**–**	**51,228**	**–**	**51,228**
Depreciation	**–**	**10,197**	**16**	**10,213**
Loss on disposal of financial assets at fair value through profit or loss	**–**	**–**	**1,591**	**1,591**
Loss on fair value change of convertible notes – embedded derivatives	**–**	**6,546**	**–**	**6,546**
Loss on restructuring of convertible notes	**–**	**6,117**	**–**	**6,117**
Impairment loss on production sharing contract	**–**	**454,192**	**–**	**454,192**
Interest expenses	**–**	**38,336**	**–**	**38,336**
Net loss on revaluation of financial assets at fair value through profit or loss	**–**	**–**	**15,625**	**15,625**
Other income	**–**	**(535)**	**(522)**	**(1,057)**
Reversal of impairment losses on trade receivables	**(90)**	**–**	**–**	**(90)**
Write off of other receivables	**–**	**–**	**35,000**	**35,000**
Reportable segment assets	**919**	**620,901**	**64,076**	**685,896**
Additions to non-current segment assets during the year	**–**	**10,907**	**–**	**10,907**
Reportable segment liabilities	**21,434**	**418,652**	**3,858**	**443,944**

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
Depreciation	21	11,645	37	11,703
Gain on disposal of financial assets at fair value through profit or loss	–	–	(1,220)	(1,220)
Gain on fair value change of convertible notes – embedded derivatives	–	(92,938)	–	(92,938)
Loss on redemption of convertible notes	–	5,455	–	5,455
Impairment loss on production sharing contract	–	323,032	–	323,032
Impairment losses on trade receivables	1,046	–	–	1,046
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

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

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**9,109**	16,669
Elimination of inter-segment revenue	**–**	–
Consolidated revenue	**9,109**	16,669
Profit or loss		
Reportable segment results	**(630,985)**	(368,267)
Other income	**233**	494
Other gains and losses	**5,153**	2,084
Unallocated head office and corporate expenses	**(32,275)**	(37,953)
Consolidated loss before tax	**(657,874)**	(403,642)
Assets		
Reportable segment assets	**685,896**	1,315,069
Unallocated head office and corporate assets	**4,925**	33,827
Consolidated total assets	**690,821**	1,348,896
Liabilities		
Reportable segment liabilities	**443,944**	391,371
Tax payables	**5,365**	3,741
Deferred tax liabilities	**127,743**	270,199
Unallocated head office and corporate liabilities	**75,319**	81,358
Consolidated total liabilities	**652,371**	746,669

(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, other receivables, financial assets at fair value through profit or loss and available-for-sale financial assets, are based on the geographical location of assets.

	Hong Kong	**PRC**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
2018			
Revenue	**8,596**	**513**	**9,109**
Specified non-current assets	**1,590**	**619,807**	**621,397**
2017			
Revenue	15,251	1,418	16,669
Specified non-current assets	86,555	1,184,539	1,271,094

(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:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**4,837**	7,122
Customer B*	**N/A**	3,637
Customer C	**2,645**	2,690

* Customer B contributed no revenue for the year ended 31 December 2018.

4. OTHER GAINS AND LOSSES

	2018 HK$'000	2017 HK$'000
Gain on disposal of asset classified as held for sale	**15,241**	–
(Loss) gain on disposal of financial assets at fair value through profit or loss	**(1,591)**	1,220
(Loss) gain on fair value change of convertible notes – embedded derivatives	**(6,546)**	92,938
Loss on disposal of property, plant and equipment	**(150)**	–
Loss on property, plant and equipment written off	**–**	(17)
Loss on redemption of convertible notes	**–**	(5,455)
Loss on restructuring of convertible notes	**(6,117)**	–
Net foreign exchange (loss) gain	**(11,082)**	14,040
Net loss on revaluation of financial assets at fair value through profit or loss	**(15,625)**	(14,907)
Write-back of other payables	**1,000**	–
(Write-down) reversal of write-down of inventories	**(6)**	2
Write off of other receivables	**(35,000)**	–
	(59,876)	87,821

5. LOSS BEFORE TAX

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

	2018 HK$'000	2017 HK$'000
(a) Finance costs		
Imputed interest on convertible notes	**38,336**	37,875
Imputed interest on bonds	**5,056**	15,131
Interest on promissory notes	**740**	–
	44,132	53,006
(b) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**21,622**	23,935
Contributions to defined contribution retirement plans	**1,819**	2,092
Total staff costs	**23,441**	26,027
(c) Other items		
Amortisation of production sharing contract	**51,228**	64,663
Auditor's remuneration		
– Audit services	**630**	600
– Non-audit services	**130**	271
Cost of inventories recognised as expenses	**8,181**	14,611
Depreciation of property, plant and equipment	**10,428**	12,174
Gain on disposal of asset classified as held for sale	**(15,241)**	–
Impairment loss on production sharing contract	**454,192**	323,032
Loss on disposal of property, plant and equipment	**150**	–
Loss on property, plant and equipment written off	**–**	17
Operating lease charges in respect of land and buildings	**2,748**	2,257
(Reversal of impairment losses) impairment losses on trade receivables	**(90)**	1,046
Write-back of other payables	**(1,000)**	–
Write-down (reversal of write down) of inventories	**6**	(2)

6. INCOME TAX

	2018	2017
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**1,806**	101
Hong Kong Profits Tax	**–**	49
	1,806	150
Deferred tax		
Current year	**(128,889)**	(99,645)
Income tax credit	**(127,083)**	(99,495)

Notes:

(i) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the consolidated financial statements. Thus, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(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% (2017: 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 2018 and 2017.

(iii) The subsidiaries in the PRC are subject to PRC Enterprise Income Tax rate of 25% (2017: 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. DIVIDEND

No dividend was paid or proposed during 2018, nor has any dividend been proposed since the end of reporting period (2017: Nil).

8. LOSS PER SHARE

(a) Basic loss per share

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

	2018	2017
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(530,452)**	(303,913)

	2018	2017 (Restated)
Weighted average number of ordinary shares at 31 December	**479,148,706**	442,191,288

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share for last year has been adjusted for the effect of share consolidation on 26 July 2018.

(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 the same as the basic loss per share.

9. INTANGIBLE ASSETS

	Production sharing contract ("PSC") HK$'000
Cost	
At 1 January 2017	3,686,204
Exchange adjustment	277,760
At 31 December 2017 and 1 January 2018	3,963,964
Exchange adjustment	(205,422)
At 31 December 2018	3,758,542
Accumulated amortisation and impairment	
At 1 January 2017	2,313,372
Charge for the year	64,663
Impairment loss	323,032
Exchange adjustment	177,011
At 31 December 2017 and 1 January 2018	2,878,078
Charge for the year	51,228
Impairment loss	454,192
Exchange adjustment	(151,152)
At 31 December 2018	3,232,346
Carrying amount	
At 31 December 2018	526,196
At 31 December 2017	1,085,886

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 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 adviser of the Company as to the PRC laws of the time, 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 kilometres, 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 kilometres, 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 1 April 2008, with a production period of 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 costs 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 upon 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 fees payable by other foreign investors to China United in other production sharing contracts. In the opinion of the directors of the Company, the administrative fees payable by Can-Elite are comparable to those payable by other foreign investors to China United in other production sharing contracts.

The PSC is amortised on a straight-line basis over the remaining contract terms of 19.9 years (2017: 20.9 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:

		2018	2017
		HK$'000	*HK$'000*
(i)	**Results for the year**		
	Revenue	**513**	1,418
	Administrative expenses	**(17,983)**	(26,482)
	Finance costs	**(38,336)**	(37,875)
	Amortisation of PSC	**(51,228)**	(64,663)
	Impairment loss on PSC	**(454,192)**	(323,032)
	PRC Enterprise Income Tax	**(1,806)**	(101)
	Reversal of deferred tax liabilities	**126,355**	96,924
(ii)	**Other comprehensive (expense) income**		
	Exchange difference on translation of foreign operations	**(32,799)**	66,995
(iii)	**Assets and liabilities**		
	Intangible assets – PSC	**526,196**	1,085,886
	Property, plant and equipment*	**93,600**	98,653
	Other payables	**(32,957)**	(23,864)
	Other borrowing	**(11,267)**	(11,814)
	Tax liabilities	**–**	(30)
	Deferred tax liabilities	**(131,548)**	(271,470)

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

		2018	2017
		HK$'000	*HK$'000*
(iv)	**Capital commitments** *(note 17(a))*		
	Contracted but not provided for	**17,820**	23,179

(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 valuers 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	19 years
Discount rate (pre-tax)	19.23%

The calculation is based on the pre-tax cash flow projections of the financial budgets approved by management covering a 19-year period and a pre-tax discount rate of 19.23% (2017: 21.30%), which have duly reflected risks specific to the PSC, assuming that all key information provided by management, which includes reserve quantity, feasibility of business plan, and exploitation method, are appropriate and feasible. The cash flow projections are based on budget sales, expected gross margins and expected capital expenditure determined based on management's experience and expectations of market developments in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2018 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 further 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$454,192,000 (2017: HK$323,032,000) has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.

10. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	**15,293**	15,822
Less: Allowance for doubtful debts *(note (b))*	**(14,472)**	(14,562)
	821	1,260
Other receivables	**824**	1,084
Other receivable from escrow agent *(note (c))*	**50,000**	85,000
Deposits and prepayments	**1,395**	1,108
	52,219	87,192
	53,040	88,452

Analysed for reporting purpose as:

	2018	2017
Non-current assets	**–**	85,000
Current assets	**53,040**	3,452
Total	**53,040**	88,452

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:

	2018	2017
	HK$'000	*HK$'000*
0-30 days	**581**	1,101
31-90 days	**240**	158
91-365 days	**–**	1,081
Over 365 days	**14,472**	13,482
	15,293	15,822
Less: Allowance for doubtful debts	**(14,472)**	(14,562)
	821	1,260

The credit terms granted to trade receivables in respect of sale of electronic components are due between 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:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**14,562**	13,516
(Reversal of impairment losses) impairment losses on trade receivables	**(90)**	1,046
At 31 December	**14,472**	14,562

At 31 December 2018, the Group's trade receivables of HK$14,472,000 (2017: HK$14,562,000) 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) Subsequent to 31 December 2018, the Group and the escrow agent have resolved the disputed matter as disclosed in the announcement of the Company dated 22 March 2019. The other receivable from escrow agent has been fully settled. Taking into account the receivable has been settled, the Group has reclassified the escrow sums to current asset as at 31 December 2018.

11. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables *(note)*	**1,383**	2,053
Other payables	**35,129**	28,093
Deposits received	**–**	2,162
Amounts due to non-controlling interests of a subsidiary	**16,072**	15,737
Accrued expenses	**10,301**	8,342
	62,885	56,387

Analysed for reporting purpose as:

Non-current liabilities	**16,072**	–
Current liabilities	**46,813**	56,387
Total	**62,885**	56,387

Note:

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

	2018	2017
	HK$'000	*HK$'000*
Current – within 1 month	**510**	1,132
More than 1 month but within 3 months	**836**	820
More than 3 months but within 6 months	**7**	15
More than 6 months	**30**	86
	1,383	2,053

12. BONDS

	Unlisted bond ("Bond I")	Unlisted bond ("Bond II")	Unlisted bond ("Bond III")	Unlisted bond ("Bond IV")	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
At 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 and 1 January 2018	23,919	958	10,936	37,985	73,798
Repayment of bonds	(24,000)	–	–	–	(24,000)
Interest charge	193	92	807	3,964	5,056
Less: Interest paid	(112)	(70)	(770)	(2,460)	(3,412)
At 31 December 2018	–	980	10,973	39,489	51,442
Analysed for reporting purpose as:					
At 31 December 2018					
Non-current liabilities	–	–	–	4,777	4,777
Current liabilities	–	980	10,973	34,712	46,665
Total	–	980	10,973	39,489	51,442
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

13. PROMISSORY NOTES

	Promissory Note I	Promissory Note II	Promissory Note III	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
Issue of promissory notes	6,000	7,500	5,000	18,500
Interest charge	421	307	12	740
At 31 December 2018	6,421	7,807	5,012	19,240

	2018	2017
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Non-current liabilities	**5,012**	–
Current liabilities	**14,228**	–
Total	**19,240**	–

14. CONVERTIBLE NOTES, UNSECURED

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

The initial conversion price of the Old Convertible Notes was HK$0.12 per share, subject to anti-dilutive adjustment, the Old 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 Old Convertible Notes shall have the right to convert the whole or any part of the principal amount of the Old Convertible Notes into ordinary shares of the Company, at any time between the date of issue of the Old Convertible Notes and 31 December 2018.

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

The conversion price of the Old 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 issue under open offer and bonus issue of warrants. Besides, the conversion price of the Old 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 respectively. Furthermore, the conversion price of the Old Convertible Notes was adjusted to HK$1.70 from the close of business on 25 July 2018 upon completion of the share consolidation as detailed in note to the consolidated financial statements.

During the year ended 31 December 2017, Old Convertible Notes with principal amount of HK$122,000,000 were redeemed. During the year ended 31 December 2018, no Old Convertible Notes was redeemed.

On 24 August 2018, the Company entered into a conditional agreement ("Convertible Notes Restructuring Agreement") with the noteholder to restructure the terms of the Old Convertible Notes. Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, on 6 November 2018, the Company issued new convertible notes with principal value of HK$365,000,000 ("New Convertible Notes") for settlement of the Old Convertible Notes.

The initial conversion price of the New Convertible Notes was HK$0.16 (subject to adjustments at any time during the period, commencing from the issue date), the New Convertible Notes bear interest at the coupon rate of 2% per annum, payable semi-annually in arrears on 30 June and 31 December in each year, and will mature on 31 December 2021. The holder of the New Convertible Notes shall have the right to convert the whole or any part of the principal amount of the New Convertible Notes into ordinary shares of the Company, at any time between the date of issue of the New Convertible Notes and 31 December 2021.

The New Convertible Notes contain two components, liability and embedded derivatives. The liability component is classified as non-current liabilities and carried at amortised cost using the effective interest method. The embedded derivatives component is classified as non-current liabilities and carried at fair value. The effective interest rate of the liability component for the New Convertible Notes is 19.39% per annum.

The fair value of the embedded derivatives portion of the 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 an 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 convertible notes at 31 December 2018 and 2017.

	New Convertible Notes At 31/12/2018	Old Convertible Notes At 31/12/2017
Share price	**HK$0.17**	HK$0.037
Conversion price	**HK$0.16**	HK$0.17
Risk free rate	**1.71%**	1.06%
Expected dividend yield	**Nil**	Nil
Annualised volatility	**72.06%**	84.35%

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

Old 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$487,000,000) as at 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 and 1 January 2018	1,336	329,394	330,730
Imputed interest charged to consolidated statement of profit or loss	–	32,227	32,227
Decrease in fair value credited to consolidated statement of profit or loss	(1,336)	–	(1,336)
Interest paid	–	(7,300)	(7,300)
Carrying amount immediately before restructuring	–	354,321	354,321
Fair value at the date of restructuring	(134,716)	(225,722)	(360,438)
Loss on restructuring	134,716	(128,599)	6,117
Carrying amount of convertible notes	–	–	–

New Convertible Notes due on 31 December 2021

	Embedded derivatives portion	Liability portion	Total
	HK$'000	*HK$'000*	*HK$'000*
Issue of convertible notes (with principal amount of HK$365,000,000) on 6 November 2018	134,716	225,722	360,438
Imputed interest charged to consolidated statement of profit or loss	–	6,109	6,109
Increase in fair value charged to consolidated statement of profit or loss	7,882	–	7,882
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 31 December 2018	142,598	231,831	374,429

At 31 December 2018, New Convertible Notes with principal amount of HK$365,000,000 remained outstanding.

15. SHARE CAPITAL

	Number of ordinary shares	Share capital
		HK$'000
Issued and fully paid		
At 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 *(note (c))*	30,000	3
At 31 December 2017 and 1 January 2018	4,790,823,420	2,032,227
Issue of shares upon exercise of warrants *(note (c))*	1,022,756	95
Share consolidation *(note (d))*	(4,312,661,559)	–
At 31 December 2018	479,184,617	2,032,322

Notes:

(a) Share consolidation effective on 24 February 2017

On 16 January 2017, the directors 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.

(c) Issue of shares upon exercise of warrants

During the year ended 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 were 958,128,684.

During the year up to 10 May 2018, being the date of expiry of the 2017 Warrants, 1,022,756 ordinary shares were issued for cash at the subscription price of HK$0.093 per share pursuant to the exercise of the 2017 Warrants. There were no 2017 Warrants outstanding as at 31 December 2018 as they had lapsed on 10 May 2018.

(d) Share consolidation effective on 26 July 2018

On 27 June 2018, the directors of the Company proposed that every ten issued shares of the Company be consolidated into one consolidated share. The share consolidation was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 25 July 2018. As all the conditions precedent to the share consolidation have been fulfilled, the share consolidation became effective on 26 July 2018.

All the new shares issued during the years ended 31 December 2018 and 2017 ranked pari passu with the then existing shares in all respects.

16. WARRANTS

On 11 May 2017, the Company issued a total of 958,158,684 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 year ended 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 were 958,128,684.

During the year up to 10 May 2018, being the date of expiry of the 2017 Warrants, 1,022,756 ordinary shares were issued for cash at the subscription price of HK$0.093 per share pursuant to the exercise of the 2017 Warrants. There were no 2017 Warrants outstanding as at 31 December 2018 as they had lapsed on 10 May 2018.

17. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	2018	2017
	HK$'000	*HK$'000*
Production sharing contract:		
– Contracted but not provided for	**17,820**	23,179

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 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**2,179**	1,334
After 1 year but within 5 years	**877**	351
	3,056	1,685

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.

18. LITIGATION

(i) 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 the escrow agent for the release of the escrow monies, the Group had not received the escrow monies. It was reported that a partner in the escrow agent 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 the escrow agent, claiming for the return of the escrow monies.

Subsequent to 31 December 2018, the Group and the escrow agent have resolved the disputed matter as disclosed in the announcement of the Company dated 22 March 2019. The other receivable from escrow agent has been fully settled.

(ii) On 13 November 2018, Can-Elite received two statements of claim issued by Beijing Dadi Gaoke Geological Exploration Company Limited ("Dadi") against Can-Elite and filed with Beijing Dongcheng District People's Court, for the default in payment of outstanding engineering fees under agreements in an aggregate principal amount of RMB5,866,973.20 and all related interests. Subsequent to 31 December 2018, in March 2019, Can-Elite and Dadi have entered into confidential settlement agreements and filed the same to the respective courts for confirmation.

(iii) On 18 December 2018, Can-Elite received a statement of claim issued by Shandong Provincial Bureau of Coal Geology Exploration Team II ("SPBCG Team II") against Can-Elite and filed with the Suzhou City Yongqiao District People's Court for the default in payment of outstanding engineering fees under agreement in an aggregate amount of RMB971,370 and all related expenses. Subsequent to 31 December 2018, in March 2019, Can-Elite and SPBCG Team II reached a settlement arrangement as disclosed in the announcement of the Company dated 28 March 2019.

19. CONTINGENCIES

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.

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 2018.

DISCLAIMER OF OPINION

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As set out in note to the consolidated financial statements, the Group incurred a net loss attributable to owners to the Company of approximately HK$530,452,000 and a net cash outflow from operating activities of approximately HK$32,313,000 for the year ended 31 December 2018. As at the same date, the Group's current liabilities exceeded its current assets by approximately HK$54,914,000 and its total borrowings amounted to approximately HK$456,378,000 while its cash and cash equivalents amounted to approximately HK$6,161,000, net of restricted bank balance and pledged bank deposits of approximately HK$213,000. As at 31 December 2018, the Group recorded outstanding bonds of approximately HK$46,665,000 and promissory notes of approximately HK$14,228,000 which are due for repayment within the next twelve months. In addition, as at the same date, the Group recorded outstanding bonds of approximately HK$4,777,000 and promissory notes of approximately HK$5,012,000 under non-current liabilities, which are due for repayment in 2020. Moreover, numerous legal claims were filed by its creditors in the PRC to demand repayments of the overdue payables of approximately RMB6,838,000 (equivalent to approximately HK$7,788,000) as explained further in note to the consolidated financial statements. These facts and circumstances, along with other matters as described in note to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

The directors of the Company have been undertaking certain measures to improve the Group's liquidity and financial position which are set out in note to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the outcome of these measures, which are subject to the following uncertainties, including (i) whether the Group is able to obtain financing when required, the attainability depends on the performance of the Group; (ii) whether the Group is able to generate sufficient cash flow from operations and plans to control costs, the attainability depends on the market performance.

These facts and circumstances, along with other matters as described in note to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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

REPORT ON OTHER MATTERS UNDER SECTIONS 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

During the year ended 31 December 2018, 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.

Coalbed Methane Business

The Group explores, develops and produces CBM in Anhui Province with a total exploration area of 567.843 square kilometres (the "**Contract Area**"). As at the end of the year of 2018, the CBM operation was still in exploration stage, a total of 42 exploration wells were drilled and 7 of them were production wells. However, only 4 of the production wells were under actual production during the year and eventually ceased to produce since July 2018. Thus, there were only marginal contributions from the CBM business for the year.

Total revenue generated from the CBM business was HK$513,000 (2017: HK$1,418,000), a loss of HK$574,086,000 (2017: HK$351,802,000) was recorded mainly due to the amortisation of production sharing contract (the "**PSC**") of HK$51,228,000 (2017: HK$64,663,000), the imputed interest on convertible notes of HK$38,336,000 (2017: HK$37,875,000), and the impairment loss on PSC of HK$454,192,000 (2017: HK$323,032,000) which was resulted from the further 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.

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). Area A can start production with effect from the day the overall development proposal ("**ODP**") approved by relevant government authorities of the PRC. Pursuant to the fourth modification agreement entered into between Can-Elite and China United in August 2017, the exploration period of Area B has been extended to 31 March 2020.

Area A

Following the completion of exploration work which led to the gathering of 3.158 billion cubic metres of underground proven reserves, Area A has proceeded into trial development phase, trial preparation works have simultaneously commenced for both underground and surface. However, the testing of two high capacity horizontal CBM wells was put on hold after suffering from construction issues such as the collapse of wellbore. Based on the current information obtained, it is better to adopt vertical well fracturing completion as the main well type to be used in the district. Can-Elite continued to prepare all necessary work in order to submit the ODP to the relevant government authorities of the PRC for review and approval.

Area B

A 2D seismic survey was undertaken which covered a total of 81 kilometres and 21 drilled wells. Can-Elite continued to perform extraction testing, secondary fracturing transformation, drainage and extraction observation and evaluation analysis in order to obtain necessary data to prepare the reserve report.

Treasury Business

The treasury business includes securities trading and money lending business.

The Group adopts a prudent approach for all its investments with the view for short to medium term profit. At 31 December 2018, the Group held an investment portfolio of listed securities in Hong Kong with an aggregate amount of approximately HK$10,010,000. During the year, the Group recorded a net unrealised loss of approximately HK$15,625,000 (i.e. unrealised gains of approximately HK$1,261,000 and unrealised losses of approximately HK$16,886,000). The unrealised loss was attributable to the Group's investments in Styland Holdings Limited ("**STYLAND**"). Details of the investments in STYLAND are as follows:

	For the year ended 31 December 2018			At 31 December 2018			At 31 December 2017
	Fair value gain (loss)	Approximate percentage of fair value loss on held-for-trading investments	Approximate percentage of fair value gain on held-for-trading investments	Market value	Approximate percentage of held-for-trading investments	Approximate percentage to the net assets	Market value
	HK$'000			*HK$'000*			*HK$'000*
STYLAND							
– shares	(16,886)	100%	–	8,749	87.40%	22.75%	27,399
– warrants	1,261	–	100%	1,261	12.60%	3.28%	482
TOTAL	(15,625)	100%	100%	10,010	100%	26.03%	27,881

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

Despite the recent US-China trade war, with the launch of the Shenzhen-Hong Kong Stock Connect, the Shanghai-Hong Kong Stock Connect and the Bond Connect in the past years, the Board believes that the financial services business, especially the securities trading business, in the sectors of banking and financial will continue to have a good prospect. The Board believes that the performance of the securities trading businesses will, eventually, 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.

Except the investment in STYLAND, at 31 December 2018, there was no other investment held by the Group which value was more than 5% of the net assets of the Group.

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 and to cope with the complexity of business environment, regular review and updates of internal policy are performed.

During the year, due to the reallocation of funds of the Group, the amount of fund distributed to the money lending business further decreased. As a result, revenue generated from this segment (i.e. interest income) decreased to approximately HK$46,000 from HK$670,000 in 2017.

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$8,550,000, which represent a 41.36% decrease as compared to year 2017. 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.

The Group is a clean energy enterprise engaging in the exploration and development of CBM (unconventional gas) in Anhui Province. The collaborative blocks are located in the CBM contract area in Anhui Province, which is situated among the eastern and coastal developed regions of the PRC, representing a prominent market advantage. After almost 10 years of exploration, the Group is still working hard to overcome challenges arose during financing and technical breakthrough, and has begun to make re-adjustments in its project operation approach, first of which is the establishment of a new concept of "integrating exploration and exploitation" for the exploration and development of unconventional gas, with an increased focus on the collection, handling and utilisation of produced trial gas while committing to complete exploration goals and objectives, and make full use of the policy which has allowed for trial sales on explored and produced gas; the second approach is to actively seek cooperation with both domestic and overseas professional companies which possess technical and financial capabilities, in order to effectively resolve the fund requirement and difficulties in improving production capacity; and the third approach is to accelerate planning process, make progress in the development and production in Luling Gas Field (Area A), complete supplementary follow-up works on exploration in Su'nan Block (Area B) as soon as possible, prepare reserves report and push for approval on the additional proven reserves as soon as possible.

In 2019, the Group will follow closely the changes in energy and economic condition in the PRC and overseas, take the initiative to adjust and review existing businesses and operations, redress the past situation of one-way investment without any return, and strive for another breakthrough year for the development of the Group's CBM business, to bring light for a foreseeable revenue to the Group and the shareholders.

In late 2018, the Group through a wholly-owned subsidiary, International Standard Resources Securities Limited, held two licenses granted by the Securities and Futures Commission, namely Type 1 (Dealing in Securities) and Type 4 (Advising on Securities). It is expected that this new segment will generate income from brokage services and margin financing in late 2019.

At the same time, 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$9,109,000 (2017: HK$16,669,000), representing a decrease of 45.35%. Such decrease of revenue was mainly due to the continuous 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 41.36% from HK$14,581,000 in 2017 to HK$8,550,000 in 2018, representing 93.86% of the Group's revenue. The CBM exploration and exploitation operating subsidiary and the treasury segment contributed HK$513,000 (2017: HK$1,418,000) and HK$46,000 (2017: HK$670,000) to the Group in 2018, representing 5.63% and 0.51% of the Group's revenue respectively. The Group recorded a gross profit of HK$928,000 in 2018, a decrease from HK$2,058,000 in 2017, which resulted from the decreased contribution from the treasury segment, i.e. the money lending business, with a comparatively higher profit margin.

The Group's loss for the year was HK$530,791,000 (2017: HK$304,147,000). 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$454,192,000 (2017: HK$323,032,000), loss on restructuring of convertible notes amounted to HK$6,117,000 (2017: Nil), fair value loss on convertible notes' embedded derivatives amounted to HK$6,546,000 (2017: gain of HK$92,938,000), imputed interest on convertible notes amounted to HK$38,336,000 (2017: HK$37,875,000), imputed interest on bonds amounted to HK$5,056,000 (2017: HK$15,131,000), amortisation of the PSC amounted to HK$51,228,000 (2017: HK$64,663,000), net loss on revaluation of financial assets at fair value through profit or loss amounted to HK$15,625,000 (2017: HK$14,907,000), net foreign exchange loss of HK$11,082,000 (2017: gain of

HK$14,040,000), depreciation on property, plant and equipment amounted to HK$10,428,000 (2017: HK$12,174,000) and the deferred tax credit amounted to HK$128,889,000 (2017: HK$99,645,000). The aggregate net result of the abovementioned accounting loss for 2018 is HK$469,721,000 (2017: HK$267,660,000). 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 2018 and 2017, if excluding those accounting profit and loss, was HK$61,070,000 and HK$36,487,000 respectively.

The Group recorded a loss attributable to owners of the Group of approximately HK$530,452,000 (2017: HK$303,913,000), and basic and diluted loss per share was approximately HK$1.11 (2017: HK$0.69 (restated)). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had current assets of HK$69,424,000 (2017: HK$77,802,000) and current liabilities of HK$124,338,000 (2017: HK$426,591,000) and cash and bank balances of HK$6,374,000 (2017: HK$34,967,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 55.83% (2017: 18.24%). The restructuring of the convertible notes falling due on 31 December 2018 proposed and completed in 2018 improved current ratio as at 31 December 2018.

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 92.13% (2017: 38.77%). 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 February, June and December 2018, promissory notes with aggregate principal amount of HK$18,500,000 were issued to an independent third party with an interest rate of 8% per annum.

During the year, bonds with aggregate principal amount of HK$24,000,000 were matured and redeemed by the Company.

During the year up to 10 May 2018, being the expiry date of the bonus warrants issued in May 2017, 1,022,756 new ordinary shares were issued upon the exercise of 1,022,756 units of bonus warrants. Net proceeds of approximately HK$95,000 were raised for 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.

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). According to the terms of bonus warrants, on 10 May 2018, the subscription rights attached to the bonus warrants were expired and ceased to be valid for any purpose thereon.

SHARE CONSOLIDATION

Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 25 July 2018, the share consolidation on the basis that every ten issued shares consolidated into one consolidated share was approved. The share consolidation was completed and became effective on 26 July 2018.

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. Upon completion of the stipulated conditions precedent to the said convertible notes restructuring agreement, new convertible notes due 31 December 2021 would be issued for the settlement of the existing convertible notes.

However, as certain conditions set out under the abovementioned convertible notes restructuring agreement had not been fulfilled on or before 30 April 2018, the convertible notes restructuring agreement was lapsed.

On 24 August 2018, the Company entered into another convertible notes restructuring agreement with 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**"). Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 30 October 2018, the special mandate for the issue of the new convertible notes with principal amount of HK$365,000,000 and bearing interest at 2% per annum due 31 December 2021 upon completion of the Convertible Note Restructuring Agreement and issue and allot of the conversion shares was approved. All the conditions precedent under the Convertible Notes Restructuring Agreement were fulfilled and the completion took place on 6 November 2018.

COMMITMENTS

Details of the commitments of the Group are set out in note 17 to the consolidated financial statements.

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 19 to the consolidated financial statements, the Group had no other contingencies as at 31 December 2018.

LITIGATION

Save as disclosed in note 18 to the consolidated financial statements, so far as known to the Directors, there was no other litigation, arbitration or claim of material importance in which the Company is engaged or pending or which was threatened against the Company.

CHARGE ON ASSETS

The short-term bank deposits, amounted to approximately HK$180,000, have been pledged as securities for banking facilities granted to the Group as at 31 December 2018. Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of approximately HK$8,237,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 31 December 2018.

EVENTS AFTER THE REPORTING PERIOD

The Group had no material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 40 employees, of which 18 were in Hong Kong and 22 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 2018.

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 2018 have been reviewed by the Audit Committee.

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. Chan Yim Por Bonnie and Mr. Wang Li, both INEDs, did not attend the extraordinary general meeting held on 30 October 2018, and furthermore, Mr. Wang Li also did not attend the annual general meeting held on 6 June 2018 and the extraordinary general meeting held on 25 July 2018, 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 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 of Listed Issuers (the "**Model Code**") set out in Appendix 10 to 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 IN 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 2018 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 2019

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.