INTERNATIONAL
STANDARD
RESOURCES
標 準 資 源

INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

Interim Report 2016

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Cheng Wai Keung
Tam Tak Wah
Tsang Ching Man

Independent Non-Executive Directors
Albert Saychuan Cheok *(Chairman)*
Chan Tsz Kit
Chan Yim Por Bonnie
Wang Li

CHIEF EXECUTIVE OFFICER

Lyu Guoping

AUTHORISED REPRESENTATIVES

Tam Tak Wah
Tsang Ching Man

COMPANY SECRETARY

Tsang Ching Man

AUDIT COMMITTEE

Chan Tsz Kit *(Chairman)*
Chan Yim Por Bonnie
Albert Saychuan Cheok
Wang Li

NOMINATION COMMITTEE

Albert Saychuan Cheok *(Chairman)*
Chan Tsz Kit
Chan Yim Por Bonnie
Wang Li

REMUNERATION COMMITTEE

Chan Yim Por Bonnie *(Chairman)*
Chan Tsz Kit
Albert Saychuan Cheok
Wang Li

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
The Bank of East Asia, Limited

LEGAL ADVISORS

D.S. Cheung & Co., Solicitors
Lau Kwong & Hung, Solicitors
TC & Co., Solicitors

AUDITOR

HLM CPA Limited
Certified Public Accountants
Room 305
Arion Commercial Centre
2-12 Queen's Road West
Hong Kong

REGISTERED OFFICE

Unit E, 29/F, Tower B
Billion Centre
No. 1 Wang Kwong Road
Kowloon

SHARE REGISTRAR

Tricor Standard Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91
Warrant stock code: 1425

COMPANY WEBSITE

www.intl-standardresources.com

The Board of Directors (the "**Board**" or "**Directors**") of International Standard Resources Holdings Limited (the "**Company**") hereby present the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2016 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the Period was HK$7,958,000 (2015: HK$42,726,000), representing a decrease of 81.37%. Such decrease of revenue was due to the substantial decrease of contribution from electronic components business which resulted from the slowdown of retail market as a whole since late 2014. The revenue generated by the sale of electronic components decreased by 85.27% from HK$41,510,000 in 2015 to HK$6,113,000 in 2016, representing 76.82% of the Group's revenue. The coalbed methane exploration and exploitation operating subsidiary and the treasury segment contributed HK$1,042,000 (2015: HK$1,076,000) and HK$803,000 (2015: HK$140,000) to the Group in 2016, representing 13.09% and 10.09% of the Group's revenue respectively. Despite the aforementioned decrease in revenue, the Group managed to record a gross profit of HK$1,917,000 in 2016, an increase of 8.67% from HK$1,764,000 in 2015, due to the increased contribution from the treasury segment, i.e. the money lending businesses, with a comparatively higher profit margin.

The Group's loss for the Period was HK$34,695,000 (2015: HK$21,287,000). Substantial part of Group's performance was mainly due to the accounting treatments of various items, such as amortisation of the production sharing contract amounted to HK$41,614,000 (2015: HK$53,834,000), fair value gain on convertible notes' embedded derivatives amounted to HK$69,837,000 (2015: HK$8,629,000), imputed interest on convertible notes amounted to HK$21,528,000 (2015: HK$33,295,000), imputed interest on bonds amounted to HK$5,213,000 (2015: HK$4,783,000), net loss on revaluation of financial assets at fair value through profit or loss amounted to HK$21,238,000 (2015: gain of HK$42,704,000), gain on disposal of financial assets at fair value through profit or loss amounted to HK$21,000 (2015: HK$7,939,000), net foreign exchange loss amounted to HK$3,728,000 (2015: gain of HK$6,208,000), allowance for doubtful debts amounted to HK$2,036,000 (2015: Nil) and the deferred tax credit amounted to HK$13,812,000 (2015: HK$4,199,000). The aggregate net result of the abovementioned accounting loss for 2016 was HK$11,687,000 (2015: HK$2,528,000). The accounting profit and loss mentioned above did not have actual impact on the cashflow position of the Group.

For comparison purpose, the loss after tax for 2016 and 2015, if excluding those accounting profit and loss, was HK$23,008,000 and HK$18,759,000 respectively. The increase in loss was the result of the increase of expenses incurred by coalbed methane related subsidiaries in the People's Republic of China (the "**PRC**") as well as the decrease of dividend income received during the Period.

The Group recorded a loss attributable to owners of the Company of approximately HK$34,683,000 (2015: HK$21,015,000), and basic and diluted loss per share was approximately HK0.60 cents (2015: HK0.48 cents) and HK0.77 cents (2015: HK0.48 cents) respectively. The Directors do not recommend the payment of a dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2016, the Group had current assets of HK$284,862,000 (31 December 2015: HK$322,187,000) and current liabilities of HK$64,998,000 (31 December 2015: HK$62,950,000) and cash and bank balances of HK$103,027,000 (31 December 2015: HK$124,920,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 438.26% (31 December 2015: 511.81%). Net asset value per share of the Group is approximately HK$0.18.

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 33.92% (31 December 2015: 33.69%). 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.

During the Period, 101,421,225 new ordinary shares were issued upon the exercise of 101,421,225 units of the bonus warrants. Net proceeds of approximately HK$9,229,000 were raised upon the exercise of the bonus warrants. The net proceeds will be applied towards repayment of debts and as general working capital of the Group.

The Group will constantly review its financial resources and 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 1 December 2015, the Company issued a total of 1,138,635,658 bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on 18 November 2015. The holders of these bonus warrants are entitled to subscribe in cash at any time during the period commencing from 1 December 2015 to 30 November 2016 (both dates inclusive) for 1,138,635,658 new shares at an initial subscription price of HK$0.091 per share (subject to adjustment). As at 30 June 2016, 1,030,115,110 units of the bonus warrants remained outstanding.

Subsequent to 30 June 2016 and up to the approval date of these condensed consolidated financial statements, 51,691,518 new ordinary shares were issued upon the exercise of 51,691,518 units of the bonus warrants and net proceeds of approximately HK$4,704,000 were raised for the general working capital of the Group.

COMMITMENTS

Details of the commitments of the Group are set out in note 22 to the condensed 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 23 to the condensed consolidated financial statements, the Group had no other contingencies as at 30 June 2016.

LITIGATION

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

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

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

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

CHARGED ON ASSETS

The short-term bank deposits, amounted to HK$180,000, have been pledged as securities for banking facilities granted to the Group as at 30 June 2016.

EVENT AFTER THE REPORTING PERIOD

The Group had no material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2016, the Group had 81 employees, of which 19 were in Hong Kong and 62 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 Hong Kong employees 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 Period.

BUSINESS REVIEW

During the Period, the Group was mainly engaged in coalbed methane ("**CBM**") exploration and production in the PRC, electronic components trading and treasury businesses. Though revenue generated from electronic components trading accounted for about 76.82% of the Group's total revenue for the Period, the Group will continue to focus and put resources on CBM exploration and production business.

Coalbed Methane Business

The Group explores, develops and produces CBM in Anhui Province with a total exploration area of 567.843 km^2. As at 30 June 2016, the CBM operation was still in exploration stage, a total of 33 exploration wells were drilled and 7 of which have been put into production, as such there were only marginal contributions to the Group from the CBM business for the Period. Total revenue generated from CBM business was HK$1,042,000 (2015: HK$1,076,000); despite the fact that there is a fair value gain on the embedded derivative portion of the convertible notes of HK$69,837,000 (2015: HK$8,629,000), a loss of HK$13,047,000 (2015: HK$63,777,000) was recorded mainly due to the amortisation of production sharing contract of HK$41,614,000 (2015: HK$53,834,000) and the imputed interest on convertible notes of HK$21,528,000 (2015: HK$33,295,000).

The Group, through its wholly-owned subsidiary, Canada Can-Elite Energy Limited ("**Can-Elite**"), entered into production sharing contract (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 government of the PRC 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 started from 2008.

In December 2015, Can-Elite and China United entered into the third modification agreement, under which the contract area is divided into Area A (Part of Luling Block with an area of 23.686 km^2 that has its proven reserves submitted) and Area B (primary part of Su'nan Block with an area of 544.157 km^2, which the proven reserve yet to be submitted). Both parties further stipulated that Area A will start production with effect from the day the Overall Development Proposal (ODP) approved by relevant authorities of the government of the PRC; the exploration period of Area B has been provisionally postponed to 31 March 2017.

During the Period, the Group installed 1 deep drilling exploration well at the deeper zones of Su'nan Block in Area B based on results of the 2D seismic survey report. Drilling of the well has completed during the reporting period, and the Group intends to carry out fracturing transformation after a comprehensive evaluation on the drilling parameters. Also, the Group is conducting layer drainage and extraction test, being a requirement for preparing the reserves report, on a group of wells drilled in 2015 at Area B during the Period, and intends to conduct a second fracturing transformation operation to improve gas production rate.

The Group commenced operation of a pair of U-shaped horizontal wells at Area A during the Period, however, based on actual construction, the pair of wells were converted into two independent drilled wells, one being a conventional vertical well and the other a cavity well. The adoption of cavity well was a first in the region. Drainage and extraction equipments of the well are currently being installed and tested.

In January 2016, the Group, through its wholly-owned subsidiary, incorporated Can-Elite Coalbed Gas (Anhui) Co ("**Can-Elite (Anhui)**") at the Economic Development District of Suzhou to engage in gathering, compression, canning, processing and transportation of gas collected from the wells for supply of vehicular and industrial gas. Currently, Can-Elite (Anhui) has installed a temporary collection device to capture compressed CBM at Area A, and intends to invest in the construction of secondary gas filling stations that include gases used for industrial cutting and for vehicles at the Economic Development District of Suzhou. After the project is completed and commenced operation, the external sales for the gas produced within the collaborative blocks pose to gradually increase, laying the foundation towards sales of scale for this project in the future.

In order to widen cooperation advantage, gain further supports from the national and local government, and enhance the protection of skills on exploration and extraction of CBM as well as the CBM reserves, the Group and Can-Elite have conducted meaningful communications and discussions with relevant authorities in Henan Province, Coal Geology Bureau of Henan Province and Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd. during first half of the year. With the consent from the relevant authorities in Henan Province, the "Strategic Cooperation Agreement Between International Standard Resources Holdings Limited (0091.HK), Coal Geology Bureau of Henan Province, Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd." was signed at Zhengzhou City, Henan Province on 16 August 2016. The three parties have officially established a mutual, reciprocal and steady long-term cooperative relationship, and this agreement represents a gradual intention to further cooperations in technical and construction matters in the Group's existing Suzhou project, in searching for new CBM collaborative blocks to explore and develop, as well as in areas such as assets restructuring, investments and financing.

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 30 June 2016, the Group held a portfolio of various listed securities, which comprised of 7 listed companies in sectors of banking and financial with an aggregate amount of approximately HK$87,726,000. Due to the underperformance of Hong Kong stock market during the Period, most of the share prices of the listed companies invested by the Group dropped and thus the Group recorded net unrealised losses of approximately HK$21,238,000 (i.e. unrealised gains of approximately HK$1,082,000 and unrealised losses of approximately HK$22,320,000), of which approximately 97.41% of the unrealised loss was attributable to the Group's investment in securities of Styland Holdings Limited ("**STYLAND**").

Details of the investments in securities of STYLAND are as follows:

	Six months ended 30 June 2016		At 30 June 2016			At 31 December 2015
Company Name	Fair value loss	Approximate percentage of fair value loss on held-for-trading investment	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	(20,605)	92.31%	59,853	68.23%	5.69%	80,458
– warrants	(1,138)	5.10%	3,777	4.31%	0.36%	4,916
Total	(21,743)	97.41%	63,630	72.54%	6.05%	85,374

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

Looking ahead, with the launch of the Shenzhen-Hong Kong Stock Connect in the coming half year, the Board believes that the financial services business, especially the securities trading business, in the sectors of banking and financial will have a good prospect. As such, the Board believes that the performance of the investments the Group invested will still 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 Company'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 30 June 2016, there was no 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 individuals. Strict internal policy for granting and on-going review of the loan is 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 of internal policy is performed.

During the Period, revenue generated from this segment (i.e. interest income) increased to approximately HK$803,000, which represent a 473.57% increase as compared to the corresponding period in 2015.

Electronic Components Business

With the continuing weak global demand dragged on the consumables market, revenue generated from this electronic components segment dropped substantially to HK$6,113,000, which represent a 85.27% decrease as compared to the corresponding period in 2015. The Group will regularly review the range of products distributed to cope with the increasingly difficult business environment so as to generate stable revenue and higher 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. With the continuous support from government policies and favourable market environment, the ceaseless technology breakthroughs, approved new reserves and perfection in various complementary conditions, the CBM specialists embrace an 'Uprising Period' and 'Golden Decade' in CBM industry in the PRC.

In February 2016, the Ministry of Finance of the PRC promulgated the "Notice regarding the Subsidy Standard for Development and Utilisation of Coalbed Methane (Gas) during the course of the 'Thirteenth Five-Year Plan'", pursuant to which the subsidy for CBM is raised from the original RMB0.2/m^3 to RMB0.3/m^3. Meanwhile, on 5 March 2016, Premier of the PRC Li Keqiang in the "Report on the Work of the Government" reiterated the need to vigorously curb the haze problem, promote the use of electricity and gas in place of coal; increase the supply of natural gas and heighten the proportion of clean energy. In addition, National Development and Reform Commission of the PRC disclosed the operation situation of natural gas in the PRC for the first half of 2016, among which the production of natural gas is 67.5 billion cubic meters, representing an increase of 2.9%; the import of natural gas is 35.6 billion cubic meters, representing an increase of 21.2%; the consumption of natural gas is 99.5 billion cubic meters, representing an increase of 9.8%. The above information shows that natural gas of the PRC has experienced various degrees of increase in production, import and consumption during the first half of 2016, and that the government of the PRC encourages the production and consumption of natural gas and the exploration and exploitation of CBM. The Group's CBM contract area in Anhui is located at developed areas in eastern and coastal regions of the PRC, representing a prominent market advantage. By developing and utilising CBM resources efficiently in the contract area, sustainable and steady returns can be generated as the Group meets the ever-increasing market demand for natural gas.

In the second half of the year, the Group will continue to focus on further collaboration with China United on the exploration and development of the CBM collaborative blocks to gain new progress and breakthrough. The Group will prepare for the development of Area A, continue conducting tests on new well completion method as well as choose the best development technique and method and prepare development proposal based on other drilled well's information; while commencing trial sale of gas from exploration wells at the same time. Exploration work at Area B will be conducted in an orderly fashion, where focus will be on drilling in certain areas to obtain additional proven reserves, as well as investigating the geological conditions and potential resources for the whole block. At the same time, reserves report will be prepared based on drainage and extraction data taken from completed wells after layer drainage and extraction and second fracturing transformation processes; drilling in other zones (including the deeper zones) will be unfolded progressively. Meanwhile, the Group shall also actively implement the tripartite strategic cooperation agreement with Coal Geology Bureau of Henan Province and Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd., establish cooperation matters, gain government support and strengthen the protection of skills.

In the coming years, the Group will continue to maintain good execution of the cooperation contract entered into with China United, timely seize market opportunities by migrating from exploration to commercial production in an orderly fashion, with an aim to maintain stable production and achieve better returns for the Group.

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.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACT

There is no transaction, arrangement or contract of significance in relation to the Group's business to which the Company or any of its subsidiaries was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the Period or at any time during the Period.

DIRECTORS' AND CHIEF EXECUTIVE'S INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2016, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in shares of the Company

Name of Director/ Chief Executive	Nature of interest	Number of shares	Number of underlying shares	Percentage
Albert Saychuan Cheok	Beneficial	825,000	–	0.01%
Lyu Guoping	Beneficial	500,000	100,000	0.01%

Save as disclosed above, as at 30 June 2016, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to Section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

SUBSTANTIAL SHAREHOLDERS' INTERESTS AND SHORT POSITIONS IN THE SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 30 June 2016, the interests and short positions of the substantial shareholders (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be kept in the register under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
Che Weng Kei	Beneficial/Corporate	508,187,500	101,637,500	10.51%
Leung Yuk Kit *(note 1)*	Corporate	673,067,500	134,613,500	13.92%
New Alexander Limited *(note 2)*	Beneficial	–	5,020,000,000	86.53%
Woode Investment Limited *(note 3)*	Beneficial	1,168,382,916	233,676,583	24.17%

Notes:

(1) Leung Yuk Kit's interest are held through a wholly-owned company, namely Good Max Holdings Limited.

(2) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2018 in an aggregate outstanding principal amount of HK$502,000,000 as at 30 June 2016.

(3) Woode Investment Limited is 100% owned by Woody Yeung.

Save as disclosed above, as at 30 June 2016, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE

The Company had complied with the Corporate Governance Code (the "**CG Code**") in Appendix 14 to the Listing Rules throughout the Period with the following major deviations:

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 independent non-executive Directors (the "**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 Company's Articles of Association. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

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

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

Due to personal and/or other overseas commitment, Mr. Wang Li, an INED, did not attend the annual general meeting of the Company held on 2 June 2016 which constitutes a deviation from the code provision A.6.7 during the Period. However, at the respective general meeting 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.

CHANGES REGARDING THE DIRECTORS OR SUPERVISOR

The changes regarding the Directors or supervisor as required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules are set out below:

(1) Mr. Cheng Wai Keung resigned as an executive director of Grand Peace Group Holdings Limited, the securities of which are listed on the GEM Board of the Stock Exchange, on 5 August 2016.

(2) Mr. Chan Tsz Kit resigned as the chief financial officer of a company listed on the NASDAQ Exchange in the United States in May 2016.

MODEL CODE FOR SECURITIES TRANSACTION 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 as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors, all the Directors 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 Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

Neither the Company nor any of its subsidiaries had purchased, sold or redeemed any listed securities in the Company during the Period.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "**Scheme**") approved by the shareholders on 11 November 2014, under which the directors of the Company may, at their discretion, offer any eligible participants (including any directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. For each lot of the share options granted, the participants will pay a nominal consideration of HK$1. The period within which the shares must be taken up under an option is determined by the board of directors of the Company from time to time, except that such period shall not exceed ten years from the date of grant of the options.

The exercise price of the share options is determinable by the directors, that it shall be at least the higher of (i) the closing price of the Company's shares on the Stock Exchange on that date of grant of share options; and (ii) the average Stock Exchange's closing price of the Company's shares for the five business days immediately preceding the date of the grant.

At the annual general meeting of the Company held on 2 June 2016, an ordinary resolution was passed refreshing the Scheme mandate limit. The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme is the amount equivalent to 10% of the shares of the Company in issue as at 2 June 2016. This limit can further be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Listing Rules. The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any twelve-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

There were no share options granted and exercised during the six months ended 30 June 2016. There were no share options outstanding as at 30 June 2016.

As at 30 June 2016, the total number of shares available for issue under the Scheme is 578,765,179 shares, representing 9.98% of issued shares of the Company.

REVIEW OF INTERIM RESULTS

The unaudited interim results for the Period have been reviewed by the Audit Committee in compliance with Rule 3.21 of the Listing Rules and the relevant code provisions of the CG Code as set out in Appendix 14 to the Listing Rules. The Audit Committee comprises all the INEDs including Mr. Chan Tsz Kit, Mr. Chan Yim Por Bonnie, Mr. Albert Saychuan Cheok and Mr. Wang Li.

The unaudited condensed consolidated financial statements have been reviewed by the Company's independent auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

ACKNOWLEDGEMENT

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

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

Hong Kong, 24 August 2016

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

恒健會計師行有限公司
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Certified Public Accountants

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TO THE BOARD OF DIRECTORS OF INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED
(Incorporated in Hong Kong with limited liability)

INTRODUCTION

We have reviewed the condensed consolidated financial statements of International Standard Resources Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 18 to 52, which comprise the consolidated statement of financial position as of 30 June 2016 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the HKICPA. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements are not prepared, in all material respects, in accordance with HKAS 34.

HLM CPA Limited
Certified Public Accountants
Ho Pak Tat
Practising Certificate Number: P05215
Hong Kong

24 August 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2016

		Unaudited Six months ended	
		30 June 2016	30 June 2015
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**7,958**	42,726
Cost of sales		**(6,041)**	(40,962)
Gross profit		**1,917**	1,764
Other income		**597**	1,722
Other gains and losses	4	**42,856**	85,185
Administrative expenses		**(25,490)**	(22,211)
Amortisation of production sharing contract		**(41,614)**	(53,834)
(Loss) profit from operations		**(21,734)**	12,626
Finance costs	5	**(26,741)**	(38,078)
Loss before tax	6	**(48,475)**	(25,452)
Income tax	7	**13,780**	4,165
Loss for the period		**(34,695)**	(21,287)
Loss for the period attributable to:			
Owners of the Company		**(34,683)**	(21,015)
Non-controlling interests		**(12)**	(272)
		(34,695)	(21,287)
Loss per share	9		
Basic (HK cents per share)		**(0.60)**	(0.48)
Diluted (HK cents per share)		**(0.77)**	(0.48)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2016

	Unaudited Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
Loss for the period	**(34,695)**	(21,287)
Other comprehensive (expense) income:		
Items that may be subsequently reclassified to profit or loss:		
Exchange differences on translation of foreign operations	**(29,110)**	13,644
Other comprehensive (expense) income for the period, net of tax	**(29,110)**	13,644
Total comprehensive expenses for the period	**(63,805)**	(7,643)
Total comprehensive expenses for the period attributable to:		
Owners of the Company	**(63,793)**	(7,371)
Non-controlling interests	**(12)**	(272)
	(63,805)	(7,643)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2016

	Notes	Unaudited 30 June 2016 HK$'000	Audited 31 December 2015 HK$'000
Non-current assets			
Property, plant and equipment	10	**94,103**	93,194
Intangible assets	11	**1,832,257**	1,915,274
Available-for-sale financial assets		**1,000**	1,000
		1,927,360	2,009,468
Current assets			
Loan receivables	12	**4,202**	11,570
Financial assets at fair value through profit or loss	13	**87,726**	85,373
Trade and other receivables	14	**89,907**	100,324
Pledged bank deposits		**180**	180
Cash and cash equivalents		**102,847**	124,740
		284,862	322,187
Current liabilities			
Other borrowing, unsecured	15	**12,172**	12,908
Trade and other payables	16	**49,147**	46,363
Tax payables		**3,679**	3,679
		64,998	62,950
Net current assets		**219,864**	259,237
Total assets less current liabilities		**2,147,224**	2,268,705

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2016

	Notes	Unaudited 30 June 2016 HK$'000	Audited 31 December 2015 HK$'000
Non-current liabilities			
Bonds	17	**109,410**	104,197
Convertible notes-liability portion, unsecured	18	**397,930**	376,402
Convertible notes-embedded derivatives, unsecured	18	**123,656**	193,493
Deferred tax liabilities	19	**464,058**	488,222
		1,095,054	1,162,314
Net assets		**1,052,170**	1,106,391
Capital and reserves			
Share capital	20	**1,840,931**	1,831,702
Reserves		**(784,875)**	(721,437)
Equity attributable to owners of the Company		**1,056,056**	1,110,265
Non-controlling interests		**(3,886)**	(3,874)
Total equity		**1,052,170**	1,106,391

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2016

	Attributable to owners of the Company							
	Share capital *HK$'000*	Shares to be issued *HK$'000* *(note 20 (c))*	Special capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2015 (Audited)	1,552,433	–	579,799	285,427	(1,073,074)	1,344,585	(3,161)	1,341,424
Loss for the period	–	–	–	–	(21,015)	(21,015)	(272)	(21,287)
Other comprehensive income								
Exchange differences on translation of foreign operations	–	–	–	13,644	–	13,644	–	13,644
Other comprehensive income for the period	–	–	–	13,644	–	13,644	–	13,644
Total comprehensive income (expenses) for the period	–	–	–	13,644	(21,015)	(7,371)	(272)	(7,643)
Issue of shares upon exercise of warrants	53,049	–	–	–	–	53,049	–	53,049
Issue of shares upon conversion of convertible notes	44,047	–	–	–	–	44,047	–	44,047
At 30 June 2015 (Unaudited)	1,649,529	–	579,799	299,071	(1,094,089)	1,434,310	(3,433)	1,430,877

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2016

	Attributable to owners of the Company							
	Share capital *HK$'000*	Shares to be issued *HK$'000* *(note 20 (c))*	Special capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2016 (Audited)	**1,831,702**	**–**	**579,799**	**195,582**	**(1,496,818)**	**1,110,265**	**(3,874)**	**1,106,391**
Loss for the period	–	–	–	–	(34,683)	(34,683)	(12)	(34,695)
Other comprehensive expense								
Exchange differences on translation of foreign operations	–	–	–	(29,110)	–	(29,110)	–	(29,110)
Other comprehensive expense for the period	–	–	–	(29,110)	–	(29,110)	–	(29,110)
Total comprehensive expenses for the period	–	–	–	(29,110)	(34,683)	(63,793)	(12)	(63,805)
Shares to be issued upon exercise of warrants	–	355	–	–	–	355	–	355
Issue of shares upon exercise of warrants	9,229	–	–	–	–	9,229	–	9,229
At 30 June 2016 (Unaudited)	**1,840,931**	**355**	**579,799**	**166,472**	**(1,531,501)**	**1,056,056**	**(3,886)**	**1,052,170**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2016

	Unaudited Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
Operating activities		
Cash used in operations	**(25,282)**	(42,139)
Income taxes paid	**(32)**	(30)
Interest received	**312**	338
Net cash used in operating activities	**(25,002)**	(41,831)
Investing activities		
Purchase of property, plant and equipment	**(9,419)**	(25,235)
Other cash flows generated from investing activities	**17**	280
Net cash used in investing activities	**(9,402)**	(24,955)
Financing activities		
Proceeds from issue of shares upon exercise of warrants	**9,584**	53,049
Proceeds from issue of bonds	**–**	21,600
Interest paid	**–**	(2,788)
Repayment of other borrowing	**(452)**	(456)
Net cash generated from financing activities	**9,132**	71,405
Net (decrease) increase in cash and cash equivalents	**(25,272)**	4,619
Cash and cash equivalents at beginning of period	**124,740**	109,752
Effect of foreign exchange rate changes	**3,379**	(981)
Cash and cash equivalents at end of period	**102,847**	113,390

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("**HKAS 34**") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**"). It was authorised for issue on 24 August 2016.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2015 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2016 annual financial statements. Details of any changes in accounting policies are set out in note 2 to the condensed consolidated financial statements.

The preparation of the condensed consolidated financial statements in conformity with HKAS 34 requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses on a year to date basis. Actual results may differ from these estimates.

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Group since the 2015 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("**HKFRSs**").

The financial information relating to the year ended 31 December 2015 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to the statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2015 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was unqualified; did not include a reference to any matters to which the auditor drew attention by way of emphasis without qualifying its report; and did not contain a statement under sections 406(2), 407(2) or (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments, which are measured at fair values.

In the current interim period, the Group has applied, for the first time, the following amendments to HKFRSs issued by the HKICPA that are relevant for the preparation of the Group's condensed consolidated financial statements:

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

The application of the above amendments to HKFRSs in the current interim period has had no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

New and revised HKFRSs issued but not yet effective

The Group has not applied the following new and revised HKFRSs, those have been issued but are not yet effective, in these interim financial statements:

Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
HKFRS 9 (2014)	Financial Instruments[2]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
HKFRS 15	Revenue from Contracts with Customers[2]
Amendments to HKFRS 15	Clarifications to HKFRS 15 Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses[1]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.
4 Effective date yet to be determined.

The directors of the Company do not anticipate that the application of these new or revised standards, amendments will have material impact on the condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

An analysis of the amount of each significant category of revenue from principal activities during the period is as follows:

	Unaudited Six months ended 30 June 2016 HK$'000	30 June 2015 HK$'000
Sale of electronic components	**6,113**	41,510
Sale of coalbed methane products	**1,042**	1,076
Interest income from money lending	**803**	140
	7,958	42,726

(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 resources 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

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

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.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

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 six months ended 30 June 2016 and 2015 is set out below:

Six months ended 30 June 2016 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	6,113	1,042	803	7,958
Reportable segment results	(2,299)	(13,047)	(21,486)	(36,832)
Allowance for doubtful debts	2,036	–	–	2,036
Amortisation of production sharing contract	–	41,614	–	41,614
Depreciation	19	5,814	50	5,883
Fair value change of convertible notes–embedded derivatives	–	(69,837)	–	(69,837)
Gain on disposal of financial assets at fair value through profit or loss	–	–	(21)	(21)
Interest expenses	–	21,528	–	21,528
Net loss on revaluation of financial assets at fair value through profit or loss	–	–	21,238	21,238
Other income	–	(269)	(17)	(286)

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Six months ended 30 June 2015 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	41,510	1,076	140	42,726
Reportable segment results	(699)	(63,777)	50,154	(14,322)
Amortisation of production sharing contract	–	53,834	–	53,834
Depreciation	19	1,469	50	1,538
Fair value change of convertible notes–embedded derivatives	–	(8,629)	–	(8,629)
Gain on disposal of financial assets at fair value through profit or loss	–	–	(7,939)	(7,939)
Gain on restructuring of convertible notes	–	(19,705)	–	(19,705)
Interest expenses	–	33,295	–	33,295
Net gain on revaluation of financial assets at fair value through profit or loss	–	–	(42,704)	(42,704)
Other income	(29)	(1,077)	(280)	(1,386)

(ii) Reconciliations of reportable segment profit or loss

	Unaudited Six months ended 30 June 2016 *HK$'000*	30 June 2015 *HK$'000*
Reportable segment loss	**(36,832)**	(14,322)
Other income	**311**	336
Other gains and losses	**(667)**	6,208
Unallocated head office and corporate expenses	**(6,074)**	(12,891)
Interest expenses	**(5,213)**	(4,783)
Consolidated loss before tax	**(48,475)**	(25,452)

4. OTHER GAINS AND LOSSES

	Unaudited Six months ended 30 June 2016 HK$'000	Unaudited Six months ended 30 June 2015 HK$'000
Allowance for doubtful debts	**(2,036)**	–
Fair value change of convertible notes–embedded derivatives	**69,837**	8,629
Gain on disposal of financial assets at fair value through profit or loss	**21**	7,939
Gain on restructuring of convertible notes	**–**	19,705
Net (loss) gain on revaluation of financial assets at fair value through profit or loss	**(21,238)**	42,704
Net foreign exchange (loss) gain	**(3,728)**	6,208
	42,856	85,185

5. FINANCE COSTS

	Unaudited Six months ended 30 June 2016 HK$'000	Unaudited Six months ended 30 June 2015 HK$'000
Imputed interest on convertible notes	**21,528**	33,295
Imputed interest on bonds	**5,213**	4,783
	26,741	38,078

6. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	Unaudited Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
Staff costs (including directors' emoluments)		
– Salaries, wages and other benefits	**11,892**	12,412
– Contributions to defined contribution retirement plans	**885**	749
Total staff costs	**12,777**	13,161
Allowance for doubtful debts	**2,036**	–
Amortisation of production sharing contract	**41,614**	53,834
Cost of inventories recognised as expenses	**6,041**	40,962
Depreciation of property, plant and equipment	**6,427**	2,026
Operating lease charges in respect of land and buildings	**1,144**	1,264
Write-down of inventories	**4**	2

7. INCOME TAX

	Unaudited Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**32**	34
Deferred tax		
Reversal of temporary differences *(note (c))*	**(13,812)**	(4,199)
Income tax credit	**(13,780)**	(4,165)

7. INCOME TAX *(Continued)*

Notes:

(a) No Hong Kong Profits Tax has been provided as the Group had no estimated assessable profits for the six months ended 30 June 2016 (2015: Nil).

(b) The Group's subsidiaries in the People's Republic of China (the "**PRC**") are subject to PRC Enterprise Income Tax rate of 25% (2015: 25%) for the six months ended 30 June 2016.

(c) Deferred tax arose from the reversal of the temporary difference related to gain on revaluation of financial assets at fair value through profit or loss amounted to HK$3,409,000 (2015: HK$9,259,000 deferred tax liabilities recognised) as referred to in note 13 to the condensed consolidated financial statements; and the reversal of the temporary difference arising from the amortisation of the intangible assets in respect of production sharing contract amounted to HK$10,403,000 (2015: HK$13,458,000) as referred to in note 11 to the condensed consolidated financial statements.

8. DIVIDEND

No dividend was paid, declared or proposed during the interim period. The directors of the Company have determined that no dividend will be paid in respect of the interim period.

9. LOSS PER SHARE

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

	Unaudited Six months ended 30 June 2016 HK$'000	30 June 2015 HK$'000
Loss		
Loss for the purpose of basic loss per share (Loss for the period attributable to owners of the Company)	**(34,683)**	(21,015)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**21,528**	–
Fair value change of convertible notes – embedded derivatives	**(69,837)**	–
Loss for the purpose of diluted loss per share	**(82,992)**	(21,015)
Number of shares		
Issued ordinary shares at 1 January	**5,700,358,074**	4,069,417,989
Effect of conversion of convertible notes	**–**	279,926,335
Effect of exercise of warrants	**40,609,492**	51,794,685
Weighted average number of ordinary shares for the purpose of basic loss per share at 30 June	**5,740,967,566**	4,401,139,009
Effect of dilutive potential ordinary shares:		
Convertible notes	**5,020,000,000**	–
Weighted average number of ordinary shares for the purpose of diluted loss per share at 30 June	**10,760,967,566**	4,401,139,009

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For both periods ended 2016 and 2015, the Company has two categories of potential ordinary shares: warrants and convertible notes.

For the calculation of diluted loss per share for the six months ended 30 June 2016, the convertible notes are assumed to have been converted into ordinary shares, and the net loss is adjusted to eliminate the related gains and interest expenses stated above for the current period, which would result in an increase in loss per share. The loss per share amount is decreased when taking the warrants into account, the exercise of warrants had an anti-dilutive effect for the six months ended 30 June 2016 and is excluded in the calculation of diluted loss per share.

No adjustment was made in calculating diluted loss per share for the six months ended 30 June 2015 as the conversion of convertible notes and exercise of warrants would both result in decrease in loss per share, i.e. anti-dilutive, after taking the consideration of related gains and interest expenses of convertible notes. Accordingly, the diluted loss per share is same as the basic loss per share for the six months ended 30 June 2015.

10. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment
	HK$'000
Carrying amounts as at 1 January 2015	69,994
Exchange adjustment	(4,764)
Additions	40,363
Depreciation	(12,399)
Carrying amounts as at 31 December 2015 and 1 January 2016 (Audited)	93,194
Exchange adjustment	(2,083)
Additions	9,419
Depreciation	(6,427)
Carrying amounts as at 30 June 2016 (Unaudited)	94,103

11. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2015	4,170,616
Exchange adjustment	(232,669)
At 31 December 2015 and 1 January 2016	3,937,947
Exchange adjustment	(86,663)
At 30 June 2016	3,851,284
Accumulated amortisation and impairment	
At 1 January 2015	1,604,908
Charge for the year	104,738
Impairment loss	419,819
Exchange adjustment	(106,792)
At 31 December 2015 and 1 January 2016	2,022,673
Charge for the period	41,614
Exchange adjustment	(45,260)
At 30 June 2016	2,019,027
Carrying amount	
At 30 June 2016 (Unaudited)	1,832,257
At 31 December 2015 (Audited)	1,915,274

The PSC is amortised on straight-line basis over the remaining contract terms of 22.4 years of the PSC.

12. LOAN RECEIVABLES

	Unaudited 30 June 2016	Audited 31 December 2015
	HK$'000	*HK$'000*
Treasury business:		
– Secured short-term loans	**4,202**	11,570

As at 30 June 2016, secured short-term loans represented short-term loans advanced to independent third party borrowers with collateral over their properties or vehicles, bearing interest from 1% to 2.55% per month and are subject to demand repayment clause.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2016	Audited 31 December 2015
	HK$'000	*HK$'000*
Held for trading investments:		
Listed investments in Hong Kong at fair value *(note)*	**87,726**	85,373

Note:

The fair values of the listed securities are determined by reference to their respective quoted market prices available on the relevant exchange at the end of the reporting period.

14. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2016 *HK$'000*	Audited 31 December 2015 *HK$'000*
Trade receivables *(note (a))*	**14,918**	14,403
Less: Allowance for doubtful debts *(note (b))*	**(13,130)**	(11,094)
	1,788	3,309
Other receivables *(note (c))*	**85,623**	95,206
Deposits and prepayments	**2,496**	1,809
	88,119	97,015
	89,907	100,324

Notes:

(a) Ageing analysis of trade receivables

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

	Unaudited 30 June 2016 *HK$'000*	Audited 31 December 2015 *HK$'000*
0-30 days	**1,285**	2,241
31-90 days	**793**	2,373
91-365 days	**8,493**	9,460
Over 365 days	**4,347**	329
	14,918	14,403
Less: Allowance for doubtful debts	**(13,130)**	(11,094)
	1,788	3,309

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

14. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(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 period/year are as follows:

	Unaudited 30 June 2016 ***HK$'000***	Audited 31 December 2015 *HK$'000*
At 1 January	**11,094**	329
Allowance recognised on trade receivables	**2,808**	10,765
Amounts recovered during the period/year	**(772)**	–
	13,130	11,094

At 30 June 2016, the Group's trade receivables of HK$13,130,000 (31 December 2015: HK$11,094,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is unlikely that the receivables can be recovered. The Group does not hold any collateral over the trade receivable balances.

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

(c) Included in other receivables of the Group were aggregate sums of HK$85,000,000 (2015: HK$85,000,000) which were escrow monies placed at the escrow accounts of a firm of solicitors which acted as an escrow agent for the Group. The Group have instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to in note 23(a) to the condensed consolidated financial statements. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow monies can be recovered in full and therefore, no impairment is required as at 30 June 2016.

15. OTHER BORROWING, UNSECURED

Other borrowing, relating to the coalbed methane business under the PSC and payable to an independent third party, is unsecured, interest-free and with no fixed repayment terms.

16. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2016 *HK$'000*	Audited 31 December 2015 *HK$'000*
Trade payables *(note)*	**2,051**	1,995
Other payables	**27,706**	25,234
Amounts due to non-controlling interests of a subsidiary *(note 25)*	**15,572**	14,154
Accrued expenses	**3,818**	4,980
	49,147	46,363

Note:

The ageing analysis of the trade payables of the Group, based on the invoice date, is as follows:

	Unaudited 30 June 2016 *HK$'000*	Audited 31 December 2015 *HK$'000*
Current-within 1 month	**1,135**	981
More than 1 month but within 3 months	**783**	856
More than 3 months but within 6 months	**68**	–
More than 6 months	**65**	158
	2,051	1,995

17. BONDS

	Unlisted bond ("Bond I") *HK$'000* *(note (a))*	Unlisted bond ("Bond II") *HK$'000* *(note (b))*	Total *HK$'000*
At 1 January 2015	78,385	904	79,289
Issue of bonds, net of transaction cost	21,600	–	21,600
Interest charge	9,839	86	9,925
Less: Interest paid	(6,547)	(70)	(6,617)
At 31 December 2015 and 1 January 2016 (Audited)	103,277	920	104,197
Interest charge	5,169	44	5,213
At 30 June 2016 (Unaudited)	108,446	964	109,410

Notes:

(a) At 31 December 2015 and 30 June 2016, Bond I with an aggregate principal amount of HK$111,000,000 were issued to the subscribers with the interest rate of 6% payable annually.

Bond I will become matured and redeemable by the Company on the third anniversary of the date of issue correspondingly.

The imputed interest expenses on Bond I were calculated using effective interest method with average effective interest rate of 10.01% (2015: 10.01%) per annum.

(b) At 31 December 2015 and 30 June 2016, Bond II with an aggregate principal amount of HK$1,000,000 were issued to the subscriber with the interest rate of 7% payable annually.

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

The imputed interest expenses on Bond II was calculated using effective interest method with effective interest rate of 9.58% (2015: 9.58%) per annum.

18. CONVERTIBLE NOTES, UNSECURED

On 28 January 2013, the Company issued convertible notes with principal amount of HK$655,000,000 and HK$40,000,000 to New Alexander Limited and Toprise Capital Limited, respectively (collectively referred to as the "**Old Convertible Notes**"). Both New Alexander Limited and Toprise Capital Limited are independent third parties of the Group.

The initial conversion price of the Old Convertible Notes was HK$0.065 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, and will mature on 31 December 2015. 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 2015.

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 16.40% per annum.

The conversion price of the Old Convertible Notes was adjusted to HK$0.13 on 20 May 2013 and to HK$0.12 on 30 May 2013 upon completion of the share consolidation and rights issue with bonus warrants.

On 30 January 2015, Old Convertible Notes with principal amount of HK$40,000,000 were converted into 333,333,333 ordinary shares. On 5 February 2015, the Company entered into a conditional agreement ("**Convertible Notes Restructuring Agreement**") with the noteholder, New Alexander Limited, holding the remaining part of the Old Convertible Notes with aggregate principal amount of HK$637,000,000, to restructure the terms of the Old Convertible Notes. Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, on 20 March 2015, the Company issued new convertible notes with principal amount of HK$637,000,000 ("**New Convertible Notes**") for settlement of the Old Convertible Notes.

The initial conversion price of the New Convertible Notes was HK$0.12 per share, subject to anti-dilutive adjustment, the New Convertible Notes bear interest at 2% per annum, payable semi-annually in arrears on 30 June and 31 December, and will mature on 31 December 2018. The holders 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 2018.

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 11.80% per annum.

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

The conversion price of the New Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issued under open offer and bonus issue of warrants as detailed in note 20 and 21 to the condensed consolidated financial statements respectively.

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 the valuation carried out by DTZ Debenham Tie Leung Limited, an independent firm of professional valuer not connected with the Group, 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 30 June 2016 and 31 December 2015.

	At 30/6/2016	At 31/12/2015
Share price	**HK$0.122**	HK$0.136
Conversion price	**HK$0.10**	HK$0.10
Risk-free rate	**0.48%**	0.75%
Expected dividend yield	**Nil**	Nil
Volatility	**78.45%**	71.74%

During the year ended 31 December 2015, New Convertible Notes with principal amount of HK$135,000,000 were redeemed.

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

The movements of the embedded derivatives portion (at fair value) and 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 2015

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal amount of HK$677,000,000) as at 1 January 2015	165,285	593,767	759,052
Conversion of convertible notes (with principal amount of HK$40,000,000)	(8,523)	(35,524)	(44,047)
Decrease in fair value credited to consolidated statement of profit or loss	(74,630)	–	(74,630)
Imputed interest charged to consolidated statement of profit or loss	–	19,118	19,118
Interest paid	–	(2,788)	(2,788)
Carrying amount immediately before restructuring	82,132	574,573	656,705
Fair value at the date of restructuring	(189,218)	(447,782)	(637,000)
Gain on restructuring	107,086	(126,791)	(19,705)
Carrying amount of convertible notes	–	–	–

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

New Convertible Notes due on 31 December 2018

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Issue of convertible notes (with principal amount of HK$637,000,000) as at 20 March 2015	189,218	447,782	637,000
Imputed interest charged to consolidated statement of profit or loss	–	38,411	38,411
Increase in fair value charged to consolidated statement of profit or loss	55,158	–	55,158
Redemption	(50,883)	(100,322)	(151,205)
Interest paid	–	(9,469)	(9,469)
Carrying amount of convertible notes (with principal amount of HK$502,000,000) as at 31 December 2015 and 1 January 2016 (Audited)	193,493	376,402	569,895
Imputed interest charged to consolidated statement of profit or loss	–	21,528	21,528
Decrease in fair value credited to consolidated statement of profit or loss	(69,837)	–	(69,837)
Carrying amount of convertible notes (with principal amount of HK$502,000,000) as at 30 June 2016 (Unaudited)	123,656	397,930	521,586

19. DEFERRED TAX LIABILITIES

	Gain on revaluation of financial assets at fair value through profit or loss	PSC *(note)*	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2015	–	641,427	641,427
Charged (credited) to consolidated statement of profit or loss	9,404	(131,139)	(121,735)
Exchange adjustment	–	(31,470)	(31,470)
At 31 December 2015 and 1 January 2016 (Audited)	9,404	478,818	488,222
Credited to consolidated statement of profit or loss	(3,409)	(10,403)	(13,812)
Exchange adjustment	–	(10,352)	(10,352)
At 30 June 2016 (Unaudited)	5,995	458,063	464,058

Note:

At 30 June 2016, the recognised deferred tax liabilities of PSC represented the tax effect of the fair value adjustments on the business combination completed in 2008.

20. SHARE CAPITAL

	Number of ordinary shares	Share capital
		HK$'000
Authorised:		
At 1 January 2015, 31 December 2015, 1 January 2016 and 30 June 2016	Unlimited number of ordinary shares with no par value.	
Issued and fully paid:		
At 1 January 2015	4,069,417,989	1,552,433
Issue of shares upon conversion of convertible notes *(note (a))*	333,333,333	44,047
Issue of new shares upon open offer *(note (b))*	1,138,585,309	181,412
Issue of shares upon exercise of warrants *(note 21)*	159,021,443	53,810
At 31 December 2015 and 1 January 2016 (Audited)	5,700,358,074	1,831,702
Issue of shares upon exercise of warrants *(note 21)*	101,421,225	9,229
At 30 June 2016 (Unaudited)	5,801,779,299	1,840,931

Notes:

(a) Issue of shares upon conversion of convertible notes

During the year ended 31 December 2015, holder of the convertible notes converted principal amount of HK$40,000,000 of the Old Convertible Notes due on 31 December 2015 issued by the Company into 333,333,333 ordinary shares at the conversion price of HK$0.12 per share.

(b) Issue of new shares upon open offer

On 14 October 2015, the Company issued 1,138,585,309 new ordinary shares at a subscription price of HK$0.168 per offer share on the basis of one offer share for every four shares held on 16 September 2015, being the record date of the open offer. Net proceeds from such share issue amounted to HK$181,412,000.

(c) Shares to be issued

Consideration for exercise of bonus warrants of HK$355,000 was duly received before the period ended 30 June 2016. The share certificates have been issued on 6 July 2016, the consideration received is credited to shares to be issued.

All the new shares issued during the six months ended 30 June 2016 ranked pari passu with the then existing shares in all respects.

21. WARRANTS

On 27 November 2014, the Company issued a total of 542,543,940 bonus warrants ("**2014 Warrants**") on the basis of two bonus warrants for every fifteen shares of the Company held by the shareholders on 19 November 2014. The holders of these 2014 Warrants are entitled to subscribe in cash at any time during the period commencing from 27 November 2014 to 26 November 2015 (both dates inclusive) for 542,543,940 ordinary shares at an initial subscription price of HK$0.35 per share (subject to adjustment).

The subscription price of the 2014 Warrants was adjusted to HK$0.33 on 17 September 2015 and to HK$0.30 on 19 November 2015 upon completion of the shares issued under open offer and bonus issue of new bonus warrants.

During the year ended 31 December 2015, 151,589,914 ordinary shares, 251,745 ordinary shares and 80,461 ordinary shares were issued for cash at the subscription price of HK$0.35 per share, HK$0.33 per share and HK$0.30 per share pursuant to the exercise of the 2014 Warrants. There were no 2014 Warrants outstanding as at 31 December 2015 as they had lapsed on 26 November 2015.

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

During the year ended 31 December 2015, 7,099,323 ordinary shares were issued for cash at the subscription price of HK$0.091 per share pursuant to the exercise of the 2015 Warrants. At 31 December 2015, the outstanding number of 2015 Warrants were 1,131,536,335.

During the six months ended 30 June 2016, 101,421,225 ordinary shares were issued for cash at the subscription price of HK$0.091 per share pursuant to the exercise of the 2015 Warrants. At 30 June 2016, the outstanding number of 2015 Warrants were 1,030,115,110. As at 30 June 2016, there are 3,900,000 ordinary shares to be issued subsequently on 6 July 2016 upon exercise of 2015 Warrants at the subscription price of HK$0.091 per share.

22. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2016 not provided for in the condensed consolidated financial statements were as follows:

	Unaudited 30 June 2016 *HK$'000*	Audited 31 December 2015 *HK$'000*
Production sharing contract:		
– Contracted but not provided for	**13,967**	27,549

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

(b) Operating lease commitments

At 30 June 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2016 *HK$'000*	Audited 31 December 2015 *HK$'000*
Within 1 year	**1,699**	1,379
After 1 year but within 5 years	**1,261**	281
	2,960	1,660

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.

23. CONTINGENCIES

(a) Legal proceedings

At the end of the reporting period, the Group had escrow monies in the sum of HK$85,000,000 placed at a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group. Despite the repeated requests served to K&L Gates for the release of the escrow monies, the Group had not received the escrow monies. It was reported that a partner in K&L Gates was arrested by the Hong Kong Police and was charged with theft and forgery with respect to escrow monies held in escrow accounts; the case was concluded in the Court of First Instance when the partner pleaded guilty and was sentenced to 12 years' imprisonment. The Group has instituted legal proceedings against K&L Gates, claiming for the return of the escrow monies. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow monies can be recovered in full and therefore, no impairment loss is required as at 30 June 2016.

(b) Environmental contingencies

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

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
30 June 2016			
Financial assets			
– Financial assets at fair value through profit or loss *(note 13)*	**87,726**	**–**	**–**
– Available-for-sale financial assets	**–**	**–**	**1,000**
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 18)*	**–**	**–**	**123,656**
	87,726	**–**	**124,656**

24. FAIR VALUE MEASUREMENTS OF FINANCIAL INSTRUMENTS *(Continued)*

Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis *(Continued)*

	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*
31 December 2015			
Financial assets			
– Financial assets at fair value through profit or loss *(note 13)*	85,373	–	–
– Available-for-sale financial assets	–	–	1,000
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 18)*	–	–	193,493
	85,373	–	194,493

During the six months ended 30 June 2016, there were no transfers between instruments in Level 1 and Level 2, or transfer into or out of Level 3 (2015: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

Information about Level 1 fair value measurements

The fair value of equity securities classified as Level 1 was determined by the quoted price in active market.

Information about Level 3 fair value measurements

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is credit spread. The fair value measurement is positively correlated to the credit spread. As at 30 June 2016, the credit spread used in the valuation is 14.03%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the credit spread would have increased/decreased the Group's loss by HK$11,080,000/HK$11,563,000 (31 December 2015: increased/decreased the Group's loss by HK$14,238,000/HK$15,195,000).

The movements during the period in the balances of the Level 3 fair value measurement for the conversion option embedded in convertible notes are disclosed in note 18 to the condensed consolidated financial statements. Fair value gain/loss on conversion option embedded in convertible notes is credited/charged to the consolidated statement of profit or loss. Of the total gains or losses for the period in the profit or loss, fair value gain of HK$69,837,000 (2015: HK$8,629,000) related to conversion option embedded in convertible notes for the reporting period. The fair value of the available-for-sale financial assets, club debentures, was estimated by the directors of the Company with reference to the expected value to be realised.

Fair value of financial assets and financial liabilities that are not measured on a recurring basis

The fair values of trade and other receivables, cash and bank balances, other borrowing and trade and other payables approximate to their carrying amounts due to the short-term maturities of these assets and liabilities.

The carrying amount of loan receivables which carry fixed interest rate approximates to their fair value.

The fair value of liability component of convertible notes and bonds are carried at amortised cost using the effective interest method.

25. RELATED PARTY TRANSACTIONS

Other than the transactions and balances disclosed elsewhere in the condensed consolidated financial statements, the Group had the following material related party transactions.

Key management personnel compensation

	Unaudited Six months ended	
	30 June 2016	30 June 2015
	HK$'000	*HK$'000*
Salaries and benefits in kind	**4,045**	2,700
Discretionary bonus	**266**	361
Retirement scheme contributions	**99**	52
	4,410	3,113

Total remuneration is included in "staff costs" (see note 6).

	Unaudited	Audited
	30 June 2016	31 December 2015
	HK$'000	*HK$'000*
Amounts due to non-controlling interests of a subsidiary *(note 16)*	**15,572**	14,154

The amounts due to the non-controlling interests of a subsidiary are unsecured, interest-free and repayable on demand.