INTERNATIONAL STANDARD RESOURCES
標 準 資 源

INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

Interim Report 2017

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

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: 1487

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 2017 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the Period was HK$10,448,000 (2016: HK$7,958,000), representing an increase of 31.29%. Such increase of revenue was mainly due to the increase of contribution from the electronic components business which resulted from the diversification of products to run medical electronic equipments distribution since October 2016. The revenue generated by the sale of electronic components increased by 54.77% from HK$6,113,000 in 2016 to HK$9,461,000 in 2017, representing 90.55% of the Group's revenue. The coalbed methane exploration and exploitation operating subsidiary and the treasury segment contributed HK$733,000 (2016: HK$1,042,000) and HK$254,000 (2016: HK$803,000) to the Group in 2017, representing 7.02% and 2.43% of the Group's revenue respectively. The Group recorded a gross profit of HK$1,104,000 in 2017, a decrease from HK$1,917,000 in 2016, which resulted from the decreased contribution from the treasury segment, i.e. the money lending businesses, with a comparatively higher profit margin.

The Group's profit for the Period was HK$6,369,000 (2016: loss of HK$34,695,000). 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$31,707,000 (2016: HK$41,614,000), loss on redemption of convertible notes amounted to HK$5,044,000 (2016: Nil), fair value gain on convertible notes' embedded derivatives amounted to HK$77,972,000 (2016: HK$69,837,000), imputed interest on convertible notes amounted to HK$19,781,000 (2016: HK$21,528,000), imputed interest on bonds amounted to HK$7,606,000 (2016: HK$5,213,000), net gain on revaluation of financial assets at fair value through profit or loss amounted to HK$387,000 (2016: net loss of HK$21,238,000), gain on disposal of financial assets at fair value through profit or loss amounted to HK$3,134,000 (2016: HK$21,000), net foreign exchange gain amounted to HK$5,674,000 (2016: net loss of HK$3,728,000), allowance for doubtful debts amounted to HK$1,461,000 (2016: HK$2,036,000) and the deferred tax credit amounted to HK$7,986,000 (2016: HK$13,812,000). The aggregate net result of the abovementioned accounting profits and losses for 2017 was profit of HK$29,554,000 (2016: loss of HK$11,687,000). The accounting profits and losses mentioned above did not have actual impact on the cashflow position of the Group.

For comparison purpose, the loss after tax for 2017 and 2016, if excluding those accounting profits and losses, was HK$23,185,000 and HK$23,008,000 respectively.

The Group recorded a profit attributable to owners of the Company of approximately HK$6,391,000 (2016: loss of HK$34,683,000), and basic earnings per share was approximately HK0.16 cents (2016: loss of HK1.20 cents per share (restated)) and diluted loss per share was approximately HK0.65 cents (2016: HK1.42 cents (restated)). The Directors do not recommend the payment of a dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2017, the Group had current assets of HK$217,819,000 (31 December 2016: HK$309,441,000) and current liabilities of HK$181,501,000 (31 December 2016: HK$150,256,000) and cash and bank balances of HK$156,800,000 (31 December 2016: HK$142,515,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 120.01% (31 December 2016: 205.94%). The deterioration of current ratio was mainly due to the other receivables (i.e. the Escrow Sum as detailed in section "LITIGATION" on p. 5 of this report) being reclassified as non-current assets as at 30 June 2017.

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 28.51% (31 December 2016: 42.98%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In January, March, April and May 2017, convertible notes with aggregate principal amount of HK$117,000,000 were redeemed by cash of HK$114,660,000 with a discount of HK$2,340,000 provided by the convertible notes holder.

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

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

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

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

SHARE CONSOLIDATION

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

RIGHTS ISSUE

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

BONUS WARRANTS

On 11 May 2017, the Company issued a total of 958,158,684 bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on 24 April 2017. The holders of these bonus warrants are entitled to subscribe in cash at any time during the period commencing from 11 May 2017 to 10 May 2018 (both dates inclusive) for 958,158,684 new shares at an initial subscription price of HK$0.093 per share (subject to adjustment). As at 30 June 2017, 958,128,684 units of these bonus warrants remained outstanding.

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 People's Republic of China (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 2017.

LITIGATION

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

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

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

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

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 2017. Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of HK$47,196,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 30 June 2017.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in note 26 to the condensed consolidated financial statements, the Group had no other material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2017, the Group had 77 employees, of which 16 were in Hong Kong and 61 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 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 90.55% 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 the Anhui Province with a total exploration area of 567.843 square kilometres. As at 30 June 2017, the CBM operation was still in exploration stage, a total of 42 exploration wells were drilled and 7 of which have been put into production, as such there were only marginal contributions from the CBM business for the Period. Total revenue generated from the CBM business was HK$733,000 (2016: HK$1,042,000). Despite the decrease in revenue of 29.65%, the amortisation of production sharing contract (the "**PSC**") of HK$31,707,000 (2016: HK$41,614,000) and the imputed interest on convertible notes of HK$19,781,000 (2016: HK$21,528,000), a profit of HK$15,050,000 (2016: loss of HK$13,047,000) was recorded as a result of a fair value gain on the embedded derivative portion of the convertible notes of HK$77,972,000 (2016: HK$69,837,000) recognised in the Period.

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 the China National Offshore Oil Corporation and authorised by the PRC government to partner with foreign companies to explore, develop and produce CBM assets. Pursuant to the PSC, Can-Elite is the operator of the Anhui CBM assets and hold 70% of participating interests in the PSC for a term of 30 years starting from 2008.

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

Area A

Following the completion of exploration work which led to the gathering of underground proven reserves of 3.158 billion cubic metres for the first time, pilot testing and ODP preparation stages have commenced. There were 7 wells that remain in continuous production. The pair of U-shaped horizontal wells which was implemented at Area A has been converted into two independent drilled wells, one being a conventional vertical well and the other a cavity well. The adoption of the cavity well was a first in the region, and was currently at drainage and extraction observation stage. Simultaneously, surface gathering and sales preparation for CBM have commenced. The Group, through its wholly-owned subsidiary, has incorporated Can-Elite Coalbed Gas (Anhui) Co ("**Can-Elite (Anhui)**") at the Economic Development District of Suzhou to engage in the gathering, compression, canning, processing and transportation of gas explored from the wells. Can-Elite (Anhui) has installed a temporary collection device to capture compressed CBM at a well group in Area A to increase the amount of external sales for the gas produced within the collaborative blocks, laying the foundation for mass production and sales for this project.

Area B

A 2D seismic survey was undertaken which covered a total of 81 kilometres and 21 drilled wells. The Group commenced deep drilling of exploration wells at the deeper zones of Su'nan Block in Area B based on results from the 2D seismic survey report, and will determine whether to carry out the fracturing transformation process through analysing of geological observations. Fundamental geological survey for CBM in the area was further expanded and the distribution of CBM resources in Su'nan were more thoroughly understood. At the same time, as a requirement for preparing the reserves report, drillings were performed in Area B by phases, and each group of drilled wells has undergone multi-layer drainage and extraction testing, secondary fracturing transformation process, drainage and extraction observation and evaluation analysis process, which will enable the capture of additional proven underground reserves.

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. During the Period, the Group acquired various listed securities as financial assets at fair value through profit or loss. At 30 June 2017, the Group held a portfolio of listed securities which comprised of 13 listed companies in various sectors with an aggregate amount of approximately HK$54,737,000 (mainly the banking and financial sector). The Group recorded a net unrealised gain of approximately HK$387,000 (i.e. unrealised gain of approximately HK$2,018,000 and unrealised losses of approximately HK$1,631,000). The unrealised gain was attributable to the Group's investment in Styland Holdings Limited ("**STYLAND**"). Details of the investments in securities of STYLAND are as follows:

	Six months ended 30 June 2017			At 30 June 2017			At 31 December 2016
	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	(1,487)	91.17%	–	40,784	74.51%	4.67%	42,057
– warrants	2,018	–	100%	2,018	3.69%	0.23%	–
Total	531	91.17%	100%	42,802	78.20%	4.90%	42,057

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

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

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

During the Period, revenue generated from this segment (i.e. interest income) decreased to approximately HK$254,000, which represent a 68.37% decrease as compared to the corresponding period in 2016.

Electronic Components Business

In order to diversify the range of products in electronic components business segment, the Group ran medical electronic equipments distribution since October 2016, as a result, revenue generated from the electronic components segment increased substantially to HK$9,461,000, which represent a 54.77% increase as compared to the corresponding period in 2016. The Group will regularly review the range of products distributed to confront with the increasingly difficult business environment so as to generate stable revenue and return.

PROSPECTS

CBM is a quality, clean and efficient natural gas resource stored in coal seams. With the exploitation and utilisation plan of CBM become crystallised, it has strengthened the prevention on coal mine accidents and reduced air pollution. It also helped alleviate the problem of energy shortage and secured the provision of clean energy, as such the government has been paying more attention to CBM businesses. Despite fluctuation in the global oil and gas industry in recent years, the PRC government has continuously introduced policies and plans to support the development of the CBM industry, and along with ceaseless technology breakthroughs, continuous increase in new reserves and improvements in various complementary conditions, have contributed to better prospect for CBM industry in the PRC. Over the past five years, the natural gas market of the PRC has maintained a faster growth in terms of consumption demand, import and domestic production volumes; and during the same period, domestic reserves, production volume and market demand for CBM have all increased at a much faster rate than the natural gas industry in general. In 2016, the PRC obtained 57.612 billion cubic metres of new proven CBM reserves with production volume at 7.48 billion cubic metres, representing an increase of 18% as compared with the corresponding period.

The PRC government encourages the production and consumption of natural gas and the exploration and exploitation of CBM. Li Keqiang, Premier of the PRC, has emphasised in the “Report on the Work of the Government (2016)” the need to vigorously curb the haze problem; promote the use of electricity and natural gas in place of coal; increase the supply of natural gas and heighten the proportion of clean energy. The “Report on the Work of the Government (2017)” further specified the following aims: advance structural reform in the power, oil and gas sectors and open their competitive operations to the private sector; make our skies blue again; prioritise the integration of clean energy sources into the electric grid. In May 2017, the State Council of the PRC has stated at an executive meeting that the tax rate of value-added tax on natural gas will reduce from 13% to 11%, which has further stimulated the use of natural gas and promoted the market-oriented reform of natural gas. The Ministry of Finance of the PRC promulgated the “Notice regarding the Subsidy Standard for Development and Utilisation of Coalbed Methane (Gas) during the course of the ‘Thirteenth Five-Year Plan’” in 2016, pursuant to which the subsidy for CBM was raised from the original RMB0.20 per cubic metre to RMB0.30 per cubic metre. Pursuant to the “Thirteenth Five-Year Plan on Oil and Natural Gas Development” promulgated by the National Development and Reform Commission of the PRC, the Beijing-Tianjin-Hebei region, Yangtze River Delta, Pearl River Delta and the northeast region were to be the key regions to push forward the “coal-to-gas” conversion projects in key cities, expand the zone of prohibition in the use of high polluting fuel in the cities, and promote vigorously the replacement with natural gas. According to the latest published data from the National Development and Reform Commission of the PRC, during the first half of 2017, consumption volume of natural gas was 114.6 billion cubic metres, representing an increase of 15.2% as compared with the corresponding period.

In July 2017, the People's Government of Anhui Province of the PRC has promulgated the "Construction Planning of Oil and Gas Pipeline Network Infrastructure in Anhui Province (2017-2021)", which specified that an aggregate amount of RMB23.4 billion would be invested from 2017 to 2021 and the construction of natural gas infrastructures in provincial-level such as pipelines and oil products pipeline network will be accelerated, which would form the frameworks for integration, networking and intellectualisation, achieve natural gas pipeline connection in every county and commence natural gas pipeline transmission and independent gas supply projects in every town, thereby increase scale of supply in state's gas pipelines and enable multiple gas (such as pipeline gas, LNG and coal gas) supply.

The Group's CBM contract area in Anhui is located at developed areas in the eastern and coastal regions of the PRC, representing a prominent market advantage. After almost 10 years of collaboration in exploration, it demonstrates a brighter prospect for resources and an expected commercial value. Currently, it is at the turning point from completing the exploration to gradual commercial development.

In the second half of the year, the Group will continue to enforce the contract with China United, to focus our strength in accelerating for new breakthroughs in terms of reserves and production volume through achieving the objectives of "production capacity improvement in Area A, and obtaining of reserves in Area B" and make full preparation to promptly achieve commercial development. Furthermore, accelerate the transformation from exploration to commercial production to deliver investment return to the Group as soon as possible. First of all, the Group will make preparation for the development of and run tests in Area A, and by leveraging on the established domestic and foreign technologies, run tests on multiple group of hydraulic fracturing wells, complete the construction of pipeline network, storage, transmission and compression pipes in wells, commence trial production and sales within target volume on exploration wells, as well as choose the best development technique and method and prepare full commercial development proposal based on information of other drilled wells. Secondly, continue to conduct exploration work at Area B; obtain approval on additional proven reserves as soon as possible through resource evaluation based on the information gathered from drilled wells, drainage and extraction testings and secondary fracturing transformation process, and through ongoing preparation of the reserves report. Thirdly, conduct fracturing evaluation on the 9 newly drilled wells by the use of domestic technology on composite seam and coal gas transformation, to accelerate the progress of obtaining additional resources in newly drilled areas at Area B. Fourthly, contemplate new ideas in consideration of the "multi-layer, thin and unevenly distributed" characteristics of the coal bed in the area, and continue to perform in-depth survey on the geological conditions for ore formation and potential resources in whole area.

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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 EXECUTIVES' INTERESTS AND SHORT POSITIONS IN THE SHARES, UNDERLYING SHARES AND DEBENTURES OF THE COMPANY OR ANY ASSOCIATED CORPORATION

As at 30 June 2017, 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	618,750	123,750	0.01%
Lyu Guoping	Beneficial	250,000	50,000	0.01%

Save as disclosed above, as at 30 June 2017, 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 2017, the interests and short positions of the substantial shareholders (other than the Directors and chief executives 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
Brighten Management Limited *(note 1)*	Beneficial	216,577,500	43,315,500	5.42%
Che Weng Kei	Beneficial/ Corporate	616,381,250	123,276,250	15.44%
Good Max Holdings Limited *(note 2)*	Beneficial	358,533,750	71,706,750	8.98%
New Alexander Limited *(note 3)*	Beneficial	–	2,176,470,587	45.43%
Styland Holdings Limited *(note 1)*	Corporate	563,187,440	112,637,488	14.11%
Styland (International) Limited *(note 1)*	Beneficial	346,609,940	69,321,988	8.68%
Woode Investment Limited *(note 4)*	Beneficial	471,691,458	94,338,291	11.81%

Notes:

(1) Included 346,609,940 shares and 69,321,988 underlying shares held through its wholly-owned subsidiary, namely Styland (International) Limited; and 216,577,500 shares and 43,315,500 underlying shares held through its non-wholly-owned subsidiary, Brighten Management Limited.

(2) Good Max Holdings Limited is wholly-owned by Leung Yuk Kit.

(3) 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$370,000,000 as at 30 June 2017.

(4) Woode Investment Limited is wholly-owned by Woody Yeung.

Save as disclosed above, as at 30 June 2017, 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 (the "**Articles**"). 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 commitment, Mr. Wang Li, an INED, did not attend the two extraordinary general meetings of the Company held on 23 February 2017 and 12 April 2017 and the annual general meeting of the Company held on 7 June 2017 which constitutes a deviation from the code provision A.6.7 during the Period. 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.

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. Albert Saychuan Cheok retired as (i) an independent non-executive director and chairman of Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust which is a healthcare real estate investment trust listed on the Singapore Exchange Securities Trading Limited ("**SGX**"), on 17 April 2017; (ii) an independent non-executive director and chairman of Auric Pacific Group Limited, a food group listed on SGX and was privatised on 17 April 2017, on 28 April 2017; and (iii) an independent non-executive director of Adavale Resources Limited, the securities of which are listed on the Australian Securities Exchange, on 28 April 2017.

(2) Mr. Chan Tsz Kit was appointed as the chief financial officer of a company listed on the NASDAQ Exchange in the United States on 5 May 2017.

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. Before the Group's interim results are announced, notifications are sent to the Directors to remind them not to deal in the securities of the Company during the blackout periods. Having made specific enquiry of 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 Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

Neither the Company nor any of its subsidiaries has purchased, sold or redeemed any listed securities of 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 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 Board, that it shall be at least the higher of (i) the closing price of the Company's shares on the Stock Exchange on the date of grant of share options; and (ii) the average closing price of the Company's shares on the Stock Exchange for the five business days immediately preceding the date of grant.

At the annual general meeting of the Company held on 7 June 2017, 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 number of shares of the Company in issue as at 7 June 2017. 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 2017. There were no share options outstanding as at 30 June 2017.

As at 30 June 2017, the total number of shares of the Company available for issue under the Scheme is 479,079,342 shares, representing 10% of the number of shares of the Company in issue.

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, 30 August 2017

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

Room 305, Arion Commercial Centre
2-12 Queen's Road West, Hong Kong.
香港皇后大道西 2-12 號聯發商業中心 305 室
Tel 電話: (852) 3103 6980
Fax 傳真: (852) 3104 0170
Email 電郵: info@hlm.com.hk

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 21 to 56, which comprise the consolidated statement of financial position as of 30 June 2017 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

30 August 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2017

		Unaudited Six months ended	
		30 June 2017	30 June 2016
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**10,448**	7,958
Cost of sales		**(9,344)**	(6,041)
Gross profit		**1,104**	1,917
Other income		**823**	597
Other gains and losses	4	**80,662**	42,856
Administrative expenses		**(24,890)**	(25,490)
Amortisation of production sharing contract		**(31,707)**	(41,614)
Profit (loss) from operations		**25,992**	(21,734)
Finance costs	5	**(27,387)**	(26,741)
Loss before tax	6	**(1,395)**	(48,475)
Income tax	7	**7,764**	13,780
Profit (loss) for the period		**6,369**	(34,695)
Attributable to:			
Owners of the Company		**6,391**	(34,683)
Non-controlling interests		**(22)**	(12)
		6,369	(34,695)
			(Restated)
Earnings (loss) per share	9		
Basic (cents per share)		**0.16**	(1.20)
Diluted (cents per share)		**(0.65)**	(1.42)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2017

	Unaudited Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Profit (loss) for the period	**6,369**	(34,695)
Other comprehensive income (expense)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**28,260**	(29,110)
Other comprehensive income (expense) for the period, net of income tax	**28,260**	(29,110)
Total comprehensive income (expenses) for the period	**34,629**	(63,805)
Attributable to:		
Owners of the Company	**34,651**	(63,793)
Non-controlling interests	**(22)**	(12)
	34,629	(63,805)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2017

	Notes	**Unaudited 30 June 2017 *HK$'000***	Audited 31 December 2016 *HK$'000*
Non-current assets			
Property, plant and equipment	10	**100,722**	89,315
Intangible assets	11	**1,383,278**	1,372,832
Other receivables	14	**85,000**	–
Available-for-sale financial assets		**1,000**	1,000
		1,570,000	1,463,147
Current assets			
Loan receivables	12	**2,049**	4,129
Financial assets at fair value through profit or loss	13	**54,737**	70,085
Trade and other receivables	14	**4,233**	92,712
Pledged bank deposits		**180**	180
Cash and cash equivalents		**156,620**	142,335
		217,819	309,441
Current liabilities			
Other borrowing, unsecured	15	**11,434**	11,265
Trade and other payables	16	**57,183**	51,414
Tax payables		**3,865**	3,680
Bonds	17	**109,019**	83,897
		181,501	150,256
Net current assets		**36,318**	159,185
Total assets less current liabilities		**1,606,318**	1,622,332

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2017

	Notes	**Unaudited 30 June 2017** ***HK$'000***	Audited 31 December 2016 *HK$'000*
Non-current liabilities			
Bonds	17	**49,162**	67,079
Convertible notes-liability portion, unsecured	18	**319,335**	403,190
Convertible notes-embedded derivatives, unsecured	18	**16,442**	105,841
Deferred tax liabilities	19	**347,210**	344,657
		732,149	920,767
Net assets		**874,169**	701,565
Capital and reserves			
Share capital	20	**2,032,227**	1,894,252
Reserves		**(1,154,075)**	(1,188,726)
Equity attributable to owners of the Company		**878,152**	705,526
Non-controlling interests		**(3,983)**	(3,961)
Total equity		**874,169**	701,565

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2017

	Attributable to the owners of the Company							
	Share capital *HK$'000*	Shares to be issued *HK$'000*	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 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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2017

	Attributable to the owners of the Company						
	Share capital *HK$'000*	Special capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2017 (Audited)	1,894,252	579,799	112,741	(1,881,266)	705,526	(3,961)	701,565
Profit (loss) for the period	–	–	–	6,391	6,391	(22)	6,369
Other comprehensive income for the period	–	–	28,260	–	28,260	–	28,260
Total comprehensive income (expenses) for the period	–	–	28,260	6,391	34,651	(22)	34,629
Issue of new shares under rights issue, net of share issue expenses	137,972	–	–	–	137,972	–	137,972
Issue of shares upon exercise of warrants	3	–	–	–	3	–	3
At 30 June 2017 (Unaudited)	2,032,227	579,799	141,001	(1,874,875)	878,152	(3,983)	874,169

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2017

	Unaudited Six months ended	
	30 June 2017 *HK$'000*	30 June 2016 *HK$'000*
Operating activities		
Cash generated from (used in) operations	**12,646**	(25,282)
Income tax paid	**(37)**	(32)
Interest received	**243**	312
Net cash generated from (used in) operating activities	**12,852**	(25,002)
Investing activities		
Purchase of property, plant and equipment	**(14,120)**	(9,419)
Dividend received	**272**	17
Net cash used in investing activities	**(13,848)**	(9,402)
Financing activities		
Proceeds from issue of new shares under rights issue, net of share issue expenses	**137,972**	–
Proceeds from issue of shares upon exercise of warrants	**3**	9,584
Proceeds from issue of bonds	**4,450**	–
Interest paid	**(7,017)**	–
Repayment for other borrowing	**(179)**	(452)
Payment for redemption of convertible notes	**(114,660)**	–
Net cash generated from financing activities	**20,569**	9,132
Net increase (decrease) in cash and cash equivalents	**19,573**	(25,272)
Cash and cash equivalents at beginning of period	**142,335**	124,740
Effect of foreign exchange rate changes	**(5,288)**	3,379
Cash and cash equivalents at end of period	**156,620**	102,847

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 30 August 2017.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2016 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2017 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 2016 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 2016 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 2016 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 HKAS 7	Disclosure Initiative
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle in relation to Amendments to HKFRS 12 Disclosure of Interests in Other Entities

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 but additional disclosures about changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes on application of amendments to HKAS 7 will be provided in the consolidated financial statements for the year ending 31 December 2017.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 9	Financial Instruments[1]
HKFRS 15	Revenue from Contracts with Customers and the related Amendments[1]
HKFRS 16	Leases[2]
HK(IFRIC)-Int 22	Foreign Currency Transactions and Advance Consideration[1]
HK(IFRIC)-Int 23	Uncertainty over Income Tax Treatments[2]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[1]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 40	Transfers of Investment Property[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle except Amendments to HKFRS 12[1]

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

The directors of the Company do not anticipate that the application of these new or revised standards and 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 2017 HK$'000	30 June 2016 HK$'000
Sale of electronic components	**9,461**	6,113
Sale of coalbed methane products	**733**	1,042
Interest income from money lending	**254**	803
	10,448	7,958

(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 2017 and 2016 is set out below:

Six months ended 30 June 2017 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**9,461**	**733**	**254**	**10,448**
Reportable segment results	**(1,681)**	**15,050**	**2,888**	**16,257**
Allowance for doubtful debts	**1,461**	**–**	**–**	**1,461**
Amortisation of production sharing contract	**–**	**31,707**	**–**	**31,707**
Depreciation	**18**	**5,620**	**35**	**5,673**
Fair value change of convertible notes-embedded derivatives	**–**	**(77,972)**	**–**	**(77,972)**
Gain on disposal of financial assets at fair value through profit or loss	**–**	**–**	**(3,134)**	**(3,134)**
Interest expenses	**–**	**19,781**	**–**	**19,781**
Loss on redemption of convertible notes	**–**	**5,044**	**–**	**5,044**
Net gain on revaluation of financial assets at fair value through profit or loss	**–**	**–**	**(387)**	**(387)**
Other income	**(8)**	**(270)**	**(307)**	**(585)**

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

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)

There was no inter-segment sales for both periods.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment profit or loss

	Unaudited Six months ended **30 June 2017** ***HK$'000***	 30 June 2016 *HK$'000*
Reportable segment profit (loss)	**16,257**	(36,832)
Other income	**238**	311
Other gains and losses	**879**	(667)
Unallocated head office and corporate expenses	**(11,163)**	(6,074)
Interest expenses	**(7,606)**	(5,213)
Consolidated loss before tax	**(1,395)**	(48,475)

4. OTHER GAINS AND LOSSES

	Unaudited Six months ended **30 June 2017** ***HK$'000***	 30 June 2016 *HK$'000*
Allowance for doubtful debts	**(1,461)**	(2,036)
Fair value change of convertible notes-embedded derivatives	**77,972**	69,837
Loss on redemption of convertible notes	**(5,044)**	–
Gain on disposal of financial assets at fair value through profit or loss	**3,134**	21
Net gain (loss) on revaluation of financial assets at fair value through profit or loss	**387**	(21,238)
Net foreign exchange gain (loss)	**5,674**	(3,728)
	80,662	42,856

5. FINANCE COSTS

	Unaudited Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Imputed interest on convertible notes	**19,781**	21,528
Imputed interest on bonds	**7,606**	5,213
	27,387	26,741

6. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

	Unaudited Six months ended	
	30 June 2017	30 June 2016
	HK$'000	*HK$'000*
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**11,722**	11,892
Contributions to defined contribution retirement plans	**989**	885
Total staff costs	**12,711**	12,777
Allowance for doubtful debts	**1,461**	2,036
Amortisation of production sharing contract	**31,707**	41,614
Cost of inventories recognised as expenses	**9,344**	6,041
Depreciation of property, plant and equipment	**5,989**	6,427
Operating lease charges in respect of land and buildings	**1,093**	1,144
Write-down of inventories	**–**	4

7. INCOME TAX

	Unaudited Six months ended 30 June 2017 HK$'000	30 June 2016 HK$'000
Current tax		
PRC Enterprise Income Tax	**45**	32
Hong Kong Profits Tax	**177**	–
	222	32
Deferred tax		
Current period *(note (c))*	**(7,986)**	(13,812)
Income tax credit	**(7,764)**	(13,780)

Notes:

(a) The provision for Hong Kong Profits Tax is calculated at 16.5% (2016: 16.5%) of the estimated assessable profits for the six months ended 30 June 2017.

(b) The Group's subsidiaries in the People's Republic of China (the "**PRC**") are subject to PRC Enterprise Income Tax rate of 25% (2016: 25%) for the six months ended 30 June 2017.

(c) Deferred tax arose from the reversal of the temporary difference related to net gain on revaluation of financial assets at fair value through profit or loss amounted to HK$59,000 (2016: HK$3,409,000) 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$7,927,000 (2016: HK$10,403,000) 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 (2016: Nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period (2016: Nil).

9. EARNINGS (LOSS) PER SHARE

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

	Unaudited Six months ended	
	30 June 2017 *HK$'000*	30 June 2016 *HK$'000*
Earnings (loss)		
Profit (loss) for the purpose of basic earnings (loss) per share (Profit (loss) for the period attributable to owners of the Company)	**6,391**	(34,683)
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**19,781**	21,528
Fair value change of convertible notes-embedded derivatives	**(77,972)**	(69,837)
Loss on redemption of convertible notes	**5,044**	–
Loss for the purpose of diluted loss per share	**(46,756)**	(82,992)

	30 June 2017	30 June 2016 (Restated)*
Weighted average number of ordinary shares for the purpose of basic and diluted earnings (loss) per share		
Issued ordinary shares at 1 January	**6,387,724,561**	5,700,358,074
Effect of shares issued under rights issue	**829,345,454**	–
Effect of exercise of warrants	**1,160**	40,609,492
Weighted average number of ordinary shares in issue during the period	**7,217,071,175**	5,740,967,566
Share consolidation	**(3,193,862,281)**	(2,870,483,783)
Effect of bonus element on shares issued under rights issue	**11,742,141**	10,553,249
Weighted average number of ordinary shares for the purpose of basic earnings (loss) per share at 30 June	**4,034,951,035**	2,881,037,032
Effect of dilutive potential ordinary shares:		
Convertible notes	**3,198,700,032**	2,952,941,176
Weighted average number of ordinary shares for the purpose of diluted loss per share at 30 June	**7,233,651,067**	5,833,978,208

* Comparative figures for the weighted average number of ordinary shares for the six months ended 30 June 2016 have been adjusted retrospectively for the effect of the share consolidation and rights issue made during the six months ended 30 June 2017.

9. EARNINGS (LOSS) PER SHARE *(Continued)*

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 2017 and 2016, 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 2017 and 30 June 2016, the convertible notes are assumed to have been converted into ordinary shares, and the net profit (loss) is adjusted to eliminate the related gains/losses and interest expenses stated above for the periods, which would result in a decrease in earnings per share for the six months ended 30 June 2017 and an increase in loss per share for the six months ended 30 June 2016.

The computation of diluted loss per share for the six months ended 30 June 2017 did not assume the exercise of the 2017 Warrants (as defined in note 21) because the exercise price of these warrants was higher than the average market price of the Company's shares for the current period. The diluted 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.

10. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment *HK$'000*
Carrying amount as at 1 January 2016	93,194
Exchange adjustment	(5,997)
Additions	14,724
Depreciation	(12,594)
Written off	(12)
Carrying amount as at 31 December 2016 and 1 January 2017 (Audited)	89,315
Exchange adjustment	2,915
Additions	14,481
Depreciation	(5,989)
Carrying amount as at 30 June 2017 (Unaudited)	100,722

11. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2016	3,937,947
Exchange adjustment	(251,743)
At 31 December 2016 and 1 January 2017	3,686,204
Exchange adjustment	114,763
At 30 June 2017	3,800,967
Accumulated amortisation and impairment	
At 1 January 2016	2,022,673
Charge for the year	81,839
Impairment loss	341,771
Exchange adjustment	(132,911)
At 31 December 2016 and 1 January 2017	2,313,372
Charge for the period	31,707
Exchange adjustment	72,610
At 30 June 2017	2,417,689
Carrying amount	
At 30 June 2017 (Unaudited)	1,383,278
At 31 December 2016 (Audited)	1,372,832

The PSC is amortised on straight-line basis over the remaining contract terms of 21.4 years of the PSC.

12. LOAN RECEIVABLES

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Treasury business:		
– Secured short-term loans	**2,049**	4,129

As at 30 June 2017, secured short-term loans represented short-term loans advanced to independent third party borrowers with collateral over their properties or vehicles, bore interest from 1.00% 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 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Held for trading investments:		
Listed investments in Hong Kong at fair value *(note)*	**54,737**	70,085

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.

Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of HK$47,196,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 30 June 2017.

14. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Trade receivables *(note (a))*	**16,672**	17,360
Less: Allowance for doubtful debts *(note (b))*	**(14,977)**	(13,516)
	1,695	3,844
Other receivables	**799**	462
Other receivable from K&L Gates *(note (c))*	**85,000**	85,000
Deposits and prepayments	**1,739**	3,406
	87,538	88,868
	89,233	92,712
Analysed for reporting purpose as:		
Non-current assets	**85,000**	–
Current assets	**4,233**	92,712
Total	**89,233**	92,712

14. TRADE AND OTHER RECEIVABLES *(Continued)*

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:

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
0-30 days	**1,085**	1,933
31-90 days	**610**	1,986
91-365 days	**4,922**	4,121
Over 365 days	**10,055**	9,320
	16,672	17,360
Less: Allowance for doubtful debts	**(14,977)**	(13,516)
	1,695	3,844

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

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 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
At 1 January	**13,516**	11,094
Allowance recognised on trade receivables	**1,461**	2,422
	14,977	13,516

At 30 June 2017, the Group's trade receivables of HK$14,977,000 (31 December 2016: HK$13,516,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. The Group does not hold any collateral over the trade receivable balances.

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

(c) Included in other receivables of the Group were aggregate sums of HK$85,000,000 (31 December 2016: HK$85,000,000) which were escrow monies placed at the escrow accounts of a firm of solicitors which acted as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to in note 23(a) to the condensed consolidated financial statements. Based on the facts and circumstances and the legal advice, the directors of the Company are of the opinion that the Group has good prospects on succeeding on its claim to recover the escrow monies in full and the change of estimated time to recover the escrow sum is expected to be longer than 12 months after the end of the reporting period due to the prolonged legal procedures (particularly taking into consideration the recent re-amended pleadings for statement of claims, discovery process and increased complication in the procedures including the introduction of expert witness). Taking into account the change of estimated time of recovering this amount and without taking mediation actions, the Group has reclassified the escrow sums to non-current asset, which was presented as a current asset under trade and other receivables as at 31 December 2016. As the timing of recovering this escrow monies is expected to be more than 12 months, the Group has assessed the estimated cash inflow of the escrow monies by using the effective interest method after considering the change of estimated time of recovery and expected interest claimed. The directors of the Company are of the opinion, based on the legal advice sought and assessment of estimated cash inflow of the escrow monies, no impairment loss is required as at 30 June 2017.

15. OTHER BORROWING, UNSECURED

Other borrowing, relating to the coalbed methane business under the PSC (note 11) 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 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Trade payables *(note)*	**2,455**	1,732
Other payables	**30,745**	24,265
Amounts due to non-controlling interests of a subsidiary *(note 25)*	**15,637**	15,637
Accrued expenses	**8,346**	9,780
	57,183	51,414

Note:

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

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Current-within 1 month	**911**	720
More than 1 month but within 3 months	**1,498**	938
More than 3 months but within 6 months	**7**	23
More than 6 months	**39**	51
	2,455	1,732

17. BONDS

	Unlisted bond ("Bond I") HK$'000 (note (a))	Unlisted bond ("Bond II") HK$'000 (note (b))	Unlisted bond ("Bond III") HK$'000 (note (c))	Unlisted bond ("Bond IV") HK$'000 (note (d))	Total HK$'000
At 1 January 2016	103,277	920	–	–	104,197
Issue of bonds, net of transaction cost	–	–	10,890	32,040	42,930
Interest charge	10,350	88	285	420	11,143
Less: Interest paid	(6,678)	(70)	(274)	(272)	(7,294)
At 31 December 2016 and 1 January 2017 (Audited)	106,949	938	10,901	32,188	150,976
Issue of bonds, net of transaction cost	–	–	–	4,450	4,450
Interest charge	5,315	45	399	1,847	7,606
Less: Interest paid/payable	(3,245)	(35)	(382)	(1,189)	(4,851)
At 30 June 2017 (Unaudited)	109,019	948	10,918	37,296	158,181
Analysed for reporting purpose as:					
At 30 June 2017					
Non-current liabilities	–	948	10,918	37,296	49,162
Current liabilities	109,019	–	–	–	109,019
Total	109,019	948	10,918	37,296	158,181
At 31 December 2016					
Non-current liabilities	23,052	938	10,901	32,188	67,079
Current liabilities	83,897	–	–	–	83,897
Total	106,949	938	10,901	32,188	150,976

17. BONDS *(Continued)*

Notes:

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

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

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

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

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

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

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

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

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

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

(d) In November, December 2016 and February 2017, Bond IV with an aggregate principal amount of HK$41,000,000 were issued to the subscribers through the placing agent with the interest rate of 6% per annum payable semi-annually.

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

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

18. CONVERTIBLE NOTES, UNSECURED

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

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

The 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 Convertible Notes is 11.80% per annum.

The conversion price of the Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issued under open offer and bonus issue of warrants. Furthermore, the conversion price of the Convertible Notes was adjusted to HK$0.20 from the close of business on 23 February 2017 and to HK$0.17 on 4 March 2017 upon completion of the share consolidation and the rights issue as detailed in note 20 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 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 30 June 2017 and 31 December 2016.

	At 30/6/2017	At 31/12/2016
Share price	**HK$0.074**	HK$0.100
Conversion price	**HK$0.17**	HK$0.10
Risk-free rate	**0.68%**	1.08%
Expected dividend yield	**Nil**	Nil
Volatility	**69.84%**	74.59%

During the year ended 31 December 2016, Convertible Notes with principal amount of HK$15,000,000 were redeemed.

During the six months ended 30 June 2017, Convertible Notes with principal amount of HK$117,000,000 were redeemed, together with a discount of HK$2,340,000 provided by Convertible Notes holder, resulting in a loss of HK$5,044,000 which was recognised in the consolidated statement of profit or loss.

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

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

Convertible Notes due on 31 December 2018

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal amount of HK$502,000,000) as at 1 January 2016 (Audited)	193,493	376,402	569,895
Imputed interest charged to consolidated statement of profit or loss	–	43,817	43,817
Decrease in fair value credited to consolidated statement of profit or loss	(83,295)	–	(83,295)
Redemption (with principal amount of HK$15,000,000)	(4,357)	(11,983)	(16,340)
Interest paid	–	(5,046)	(5,046)
Carrying amount of convertible notes (with principal amount of HK$487,000,000) as at 31 December 2016 and 1 January 2017 (Audited)	105,841	403,190	509,031
Imputed interest charged to consolidated statement of profit or loss	–	19,781	19,781
Decrease in fair value credited to consolidated statement of profit or loss	(77,972)	–	(77,972)
Redemption (with principal amount of HK$117,000,000)	(11,427)	(98,189)	(109,616)
Interest paid	–	(5,447)	(5,447)
Carrying amount of convertible notes (with principal amount of HK$370,000,000) as at 30 June 2017 (Unaudited)	16,442	319,335	335,777

19. DEFERRED TAX LIABILITIES

	Fair value adjustments of financial assets at fair value through profit or loss *HK$'000*	Fair value adjustments on PSC arising from the business combination *(note 11)* *HK$'000*	Total *HK$'000*
At 1 January 2016	9,404	478,818	488,222
Credit to consolidated statement of profit or loss	(7,954)	(105,902)	(113,856)
Exchange adjustment	–	(29,709)	(29,709)
At 31 December 2016 and 1 January 2017 (Audited)	1,450	343,207	344,657
Credit to consolidated statement of profit or loss	(59)	(7,927)	(7,986)
Exchange adjustment	–	10,539	10,539
At 30 June 2017 (Unaudited)	1,391	345,819	347,210

Note:

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

Notes:

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

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

All the new shares issued during the six months ended 30 June 2017 ranked pari passu with the then existing shares in all respects.

21. WARRANTS

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

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

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

During the six months ended 30 June 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 30 June 2017, the outstanding number of 2017 Warrants are 958,128,684.

22. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2017 not provided for in the condensed consolidated financial statements are as follows:

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Production sharing contract:		
– Contracted but not provided for	**25,762**	4,385

On 23 December 2015, Canada Can-Elite Energy Limited ("**Can-Elite**") entered into the third modification agreement to the modified PSC with China United Coalbed Methane Corporation Limited ("**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.

Subsequently, Can-Elite entered into the fourth modification agreement to the modified PSC with China United for the extension of exploration period and amendment of expenditure commitment for exploration. Further details are disclosed in note 26 to the condensed consolidated financial statements.

(b) Operating lease commitments

At 30 June 2017, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2017 *HK$'000*	Audited 31 December 2016 *HK$'000*
Within 1 year	**1,247**	1,981
After 1 year but within 5 years	**64**	1,013
	1,311	2,994

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

23. LITIGATION AND CONTINGENCIES

(a) Legal proceedings

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

(b) Environmental contingencies

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

24. FINANCIAL RISK MANAGEMENT AND 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 valuations measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

- Level 2 fair value valuations 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 valuations 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 2017			
Financial assets			
– Financial assets at fair value through profit or loss *(note 13)*	**54,737**	**–**	**–**
– Available-for-sale financial assets	**–**	**–**	**1,000**
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 18)*	**–**	**–**	**16,442**
	54,737	**–**	**17,442**

24. FINANCIAL RISK MANAGEMENT AND 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 2016			
Financial assets			
– Financial assets at fair value through profit or loss *(note 13)*	70,085	–	–
– Available-for-sale financial assets	–	–	1,000
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 18)*	–	–	105,841
	70,085	–	106,841

During the six months ended 30 June 2017, there were no transfers between instruments in Level 1 and Level 2, or transfer into or out of Level 3 (2016: 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 2017, the credit spread used in the valuation is 19.31%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the credit spread would have decreased/increased the Group's profit by HK$1,441,000/HK$1,502,000 (31 December 2016: increased/decreased the Group's loss by HK$9,200,000/HK$9,551,000).

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 on conversion option embedded in convertible notes is credited 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$77,972,000 (2016: HK$69,837,000) 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.

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 2017	30 June 2016
	HK$'000	*HK$'000*
Salaries, allowance and other benefits in kind	**3,239**	4,045
Discretionary bonus	**240**	266
Retirement scheme contributions	**45**	99
	3,524	4,410

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

	Unaudited 30 June 2017	Audited 31 December 2016
	HK$'000	*HK$'000*
Amounts due to non-controlling interests of a subsidiary *(note 16)*	**15,637**	15,637

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

26. EVENTS AFTER THE REPORTING PERIOD

On 13 July 2017, a wholly-owned subsidiary of the Company entered into a property sale and purchase agreement with an independent third party to dispose the property situated at Unit 1908, Level 17, Block 5-2, No. 5 Chongwenmen Outer Street, Dongcheng District, Beijing, PRC, at a consideration of RMB17,000,000 (equivalent to approximately HK$19,540,000). The completion of the disposal will take place on or before 10 February 2018.

Pursuant to the third modification agreement dated 23 December 2015, among other things, the exploration area of approximately 567.843 square kilometres, located in Su'nan, Anhui Province (the "**Contract Area**") has been divided into Area A and Area B, consisting of approximately 23.686 and 544.157 square kilometres, 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 of the Contract Area 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.