INTERNATIONAL STANDARD RESOURCES
標 準 資 源

INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

ANNUAL 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 ADVISERS

TC & Co., Solicitors
Lau Kwong & Hung, 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

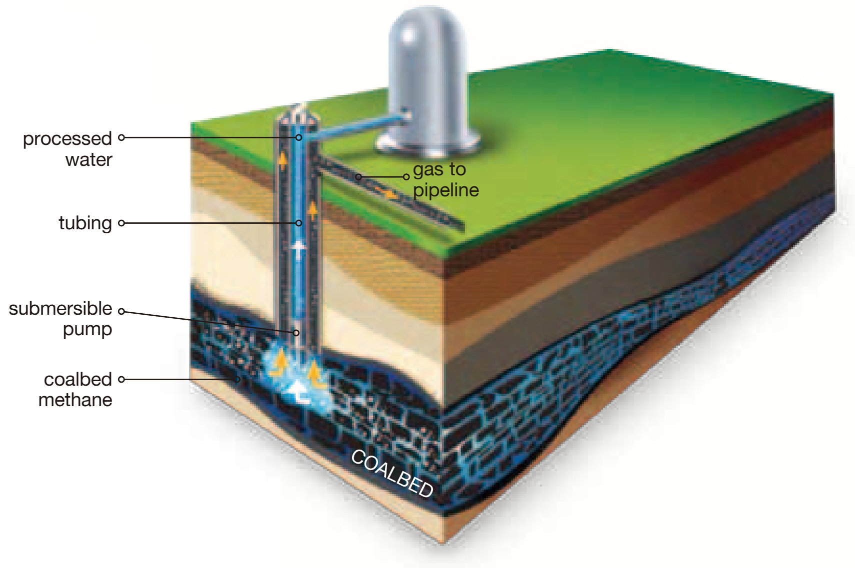
www.intl-standardresources.com

CONTENTS

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board of directors (the "Board" or "Director(s)") of International Standard Resources Holdings Limited (the "Company" together with its subsidiaries, the "Group"), I hereby present the annual results of the Group for the financial year ended 31 December 2017.



BUSINESS REVIEW

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

Coalbed Methane Business

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

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

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

Area A

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

Area B

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

On top of the 9 production pilot wells from previous stage, there were 9 vertical wells newly drilled in 2017, with a total drill distance of 11,140 metres and total core length of 650 metres into the coal seam. Testing was performed on the cores of the coal seam for gas content and random testing was carried out on typical black mudstones and sandstones that were shown to contain gas. Comprehensive well logging interpretation and well logging were made on all the wells, in which a number of exploration results data were obtained. Preliminary results stated that the southern part of Su'nan contains multiple coal seams of uneven thickness, the main coal seam of which contains 8-13 cubic metres of gas per tonne, making it a favourable area for CBM development with its relatively large coalbed gas resources and development potential, and has provided a clear direction for next phase exploration, evaluation, reserves reporting, development and planning.

Treasury Business

The treasury business includes securities trading and money lending businesses.

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

		For the year ended 31 December 2017		At 31 December 2017			At 31 December 2016
	Fair value gain (loss)	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	(15,359)	99.81%	–	27,399	92.57%	4.55%	42,057
- warrants	482	–	100%	482	1.63%	0.08%	–
Total	(14,877)	99.81%	100%	27,881	94.20%	4.63%	42,057

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

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

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

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

Electronic Components Business

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

PROSPECTS

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

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

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

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

In addition to a series of significant policies introduced by the PRC government, in an unprecedented action, provinces and cities throughout the country have also put great efforts in developing local natural gas industry to ensure the implementation of natural gas development strategy and ecological environmental strategy, for example, Guizhou Provincial Government has launched a policy to subsidise the extraction of coalbed methane, pursuant to which the local government will subsidise an additional RMB0.20 per cubic metre on top of the RMB0.30 per cubic metre subsidy from the state. Provincial governments of Shanxi, Henan, Hubei and Hunan have also taken a leading role in launching policies and an increased effort regarding the exploration and development of unconventional gas. In July 2017, the People's Government of Anhui Province of the PRC has promulgated the "Construction Planning of Oil and Gas Pipeline Network Infrastructure in Anhui Province (2017-2021)", which specified that an aggregate amount of RMB23.4 billion would be invested from 2017 to 2021 and the construction of natural gas infrastructures in provincial-level such as pipelines and oil products pipeline network will be accelerated, which would form the frameworks for integration, networking and intellectualisation, achieve natural gas pipeline connection in every county and commence natural gas pipeline transmission and independent gas supply projects in every town, thereby increase scale of supply in state's gas pipelines and enable multiple gas (such as pipeline gas, liquefied natural gas (LNG) and coal gas) supply.

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

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

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

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

APPRECIATION

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

Albert Saychuan Cheok
Chairman

Hong Kong, 28 March 2018

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

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

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

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

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

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2017, the Group had current assets of HK$77,802,000 (2016: HK$309,441,000) and current liabilities of HK$426,591,000 (2016: HK$150,256,000) and cash and bank balances of HK$34,967,000 (2016: HK$142,515,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 18.24% (2016: 205.94%). The deterioration of current ratio was mainly due to (i) the other receivables (i.e. the Escrow Sum as detailed in section "LITIGATION" on page 15 of this annual report) being reclassified as non-current assets and (ii) the convertible notes with principal amount of HK$365,000,000 falling due on 31 December 2018 being reclassified as current liabilities as at 31 December 2017.

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

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

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

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

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

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

COMMITMENTS

Details of the commitments of the Group are set out in note 33 to the consolidated financial statements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENCIES

Save as disclosed in note 34 to the consolidated financial statements, the Group had no other contingencies as at 31 December 2017.

LITIGATION

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

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

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

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

CHARGE ON ASSETS

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

SHARE CONSOLIDATION

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

RIGHTS ISSUE

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

BONUS WARRANTS

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

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

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

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 38 to the consolidated financial statements, the Group had no other material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

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

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

EXECUTIVE DIRECTORS

CHENG Wai Keung, aged 52, was appointed as an executive director of the Company in November 2010. He obtained a bachelor's degree in business administration from Hong Kong Baptist University in the early 1990's. Mr. Cheng has over 20 years of experience in Hong Kong financial market. He has extensive experience in investment and securities dealing and held senior positions in sales and marketing of various financial institutions in Hong Kong. Mr. Cheng has been appointed as the public relations manager of the Company since May 2010. He was an executive director of Grand Peace Group Holdings Limited, the securities of which are listed on the GEM Board of The Stock Exchange of Hong Kong Limited, for the periods from 23 August 2013 to 4 August 2016 and from 18 November 2016 to 16 March 2018.

TAM Tak Wah, aged 52, was appointed as an executive director and the corporate development director of the Company in September 2009. Mr. Tam is also the authorised representative of the Company. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. He is appointed to membership of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Tam has over 25 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Future World Financial Holdings Limited and is a non-executive director of Kingbo Strike Limited, both companies are listed on the main board of The Stock Exchange of Hong Kong Limited. He was an independent non-executive director of Tech Pro Technology Development Limited during the period from 7 January 2011 to 17 March 2017 and an executive director of Skyway Securities Group Limited (now known as CMBC Capital Holdings Limited) during the period from 20 July 2015 to 22 November 2016, all of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited.

TSANG Ching Man, aged 37, was appointed as an executive director of the Company in August 2009. She is also the company secretary, the authorised representative and the chief financial officer of the Company. Ms. Tsang obtained a Bachelor of Business Administration (Hons) degree in Accountancy from City University of Hong Kong in 2004. She is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Tsang started her career in July 2004 mainly involved in audit assignment in audit firms.

INDEPENDENT NON-EXECUTIVE DIRECTORS

CHAN Tsz Kit, aged 41, was appointed as an independent non-executive director of the Company in September 2009. He is also the chairman and a member of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Chan is a Certified Public Accountant in Hong Kong. He has over 15 years of working experience in public accounting. Mr. Chan was the chief financial officer of a company listed on the NASDAQ Exchange in the United States of America during the period from October 2010 to May 2016. He is currently the chief financial officer of another company listed on the NASDAQ Exchange in the United States of America.

CHAN Yim Por Bonnie, aged 51, was appointed as an independent non-executive director of the Company in July 2011. He is also the chairman and a member of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Chan is a solicitor and notary public (practicing) in Hong Kong who was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is currently a member of The Law Society of Hong Kong as well as the Hong Kong Society of Notaries. Mr. Chan obtained a Bachelor's Degree of Laws in 1988 and a Master's Degree of Laws in 1993 and has been practicing as a solicitor in the commercial field in Hong Kong since 1991. He established his own firm, Messrs. Yeung & Chan, Solicitors in 1996 and is now the sole proprietor of the firm. He has been a part time lecturer and tutor of the Postgraduate Certificate in Laws in The University of Hong Kong since 2002 and was admitted as an adjunct lecturer of the HKU School of Professional and Continuing Education in 2009.

Albert Saychuan CHEOK, aged 67, was appointed as chairman and independent non-executive director of the Company in July 2013. He is also the chairman and a member of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Mr. Cheok graduated from the University of Adelaide, Australia, with a First Class Honours degree in Economics. He is a Fellow of the CPA Australia and is a banker with over 40 years of experience in banking in the Asia-Pacific region, particularly in Australia, Hong Kong and Malaysia. He was the chairman of Bangkok Bank Berhad in Malaysia for the period from September 1995 to November 2005 and was formerly the Deputy Commissioner of Banking of Hong Kong and an executive director in charge of Banking Supervision at the Hong Kong Monetary Authority. Mr. Cheok is currently a member of the Board of Governors of the Malaysian Institute of Corporate Governance in Malaysia.

Mr. Cheok is an independent non-executive director of China Aircraft Leasing Group Holdings Limited, the securities of which are listed on The Stock Exchange of Hong Kong Limited. He is also the independent non-executive chairman of Amplefield Limited which is listed on Singapore Exchange Securities Trading Limited ("**SGX**") and the non-executive Chairman of 5G Networks Limited which is listed on the Australian Securities Exchange. Mr. Cheok was formerly the chairman and an independent non-executive director of AcrossAsia Limited, which was listed on The Stock Exchange of Hong Kong Limited, from February 2006 to August 2016, and the independent non-executive director of Hongkong Chinese Limited, which is listed on The Stock Exchange of Hong Kong Limited, from January 2002 to December 2017, the independent non-executive chairman of Creative Master Bermuda Limited, which is listed on the SGX, from May to September 2011, of Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust which is a healthcare real estate investment trust listed on the SGX, from May 2006 to April 2017, of Lippo Malls Indonesia Retail Trust ("**LMIRT**") Management Limited, the manager of LMIRT which is a real estate investment trust listed on the SGX, from July 2010 to September 2017, and of Auric Pacific Group Limited, which was listed on the SGX, from July 2002 to April 2017. He was also an independent non-executive director of Adavale Resources Limited, a coal exploration company listed on the Australian Securities Exchange, from December 2012 to April 2017, the vice chairman of Export and Industry Bank, Inc., which is listed on The Philippine Stock Exchange, from February 2006 to April 2012, and an independent non-executive director of Metal Reclamation Berhad, a public listed company in Malaysia, from May 1998 to July 2015.

WANG Li, aged 35, was appointed as an independent non-executive director of the Company in September 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics degree from Peking University in 2005 and a Master in Finance degree from the University of St. Andrews, United Kingdom in 2008. He was a research assistant of Skyone Securities Company Limited, a trust manager of CITIC Trust Company Limited and a senior manager of Hongyuan Huizhi Investment Company Limited. Mr. Wang is currently a manager of China Resources SZITIC Trust Company Limited.

SENIOR MANAGEMENT

LYU Guoping, aged 53, joined the Group as a project consultant in January 2011 and was appointed as chief executive officer of the Company in addition to his current position in July 2013. He currently also serves as a director and a legal representative of High-Spirited Investment Limited and a supervisor of Shenzhen Clouds Energy Technology Limited, both companies are subsidiaries of the Group in the People's Republic of China (the "**PRC**"). Mr. Lyu graduated from the Wuhan Institute of Geology (currently known as China University of Geosciences (Wuhan)) with a bachelor's degree in geology in 1983 and from the Nankai University with a doctor's degree in economics in 1996. He has over 25 years of experience in geology and mineral exploration, gems and jewelry, journalism and natural resources management in both private and public sectors in the PRC. Prior to joining the Group in January 2011, Mr. Lyu was the deputy general manager of China Resources Coal Holdings Co., Limited and has extensive experience in administration, law and policy, corporate management, asset acquisition and energy exploration.

DU Ming, aged 73, has been working in the oil and natural gas industry for more than 45 years. Currently, he is the chief technical officer of the Group and concurrently serves as the acting president of Canada Can-Elite Energy Limited, a wholly-owned subsidiary of the Group. Prior to this, Mr. Du worked at well known oil and gas organisations including China United Coalbed Methane Corporation, China National Petroleum Corporation and Sinopec Shengli Oilfield and took on important technological roles in these companies.

LIU Shaobin, aged 74, is an expert in the oilfield science area. With over 45 years of industry experience, Mr. Liu is equipped with enormous knowledge and experience in oil exploration and exploitation techniques. Currently, he is the technical director of Canada Can-Elite Energy Limited, a wholly-owned subsidiary of the Group, vice-chairman of China Petroleum Education Society and honorary director of China Petroleum Enterprise Association. Mr. Liu has taught on the subjects of petroleum and natural gas at China University of Petroleum in Beijing, CNPC Managers Training Institute, Huabei Oilfield Production Technology Research Institute, Huabei Oilfield Finance School and Huabei Oilfield Mechanic School.

WANG Wengang, aged 48, has nearly 20 years of experience in project management and operation. Currently, he is the President (PRC Region) of the Group. Prior to joining the Group, Mr. Wang worked as professional investment manager in Tomorrow Holding Limited Company, Topeak Group Investment Company and State Development & Investment Corporation.

CORPORATE GOVERNANCE PRACTICES

The board of directors (the "**Board**" or "**Director(s)**") of International Standard Resources Holdings Limited (the "**Company**") is pleased to present this Corporate Governance Report for the year ended 31 December 2017 (the "**Year**").

The Company recognises the importance of good corporate governance practices and believes that maintaining high standard of corporate governance practices is crucial to the development of the Company and essential for maintaining and promoting investor's confidence and maximising shareholders' returns.

During the Year, the Company had complied with the code provisions of the Corporate Governance Code (the "**CG Code**") as set out in Appendix 14 to the Rules Governing the Listing of Securities ("**Listing Rules**") on The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") with an exception of code provisions A.4.1 and A.6.7, details of which will be explained below.

In order to protect and enhance the benefits of the shareholders, the Board and its executive management will continue to monitor and review the governance policies so as to ensure that such policies comply with the increasingly stringent regulatory requirements.

DIRECTORS' SECURITIES TRANSACTIONS

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

BOARD OF DIRECTORS

The primary responsibilities of the Board are to make decision on the objectives, strategic plans, budgets and management structure of the Company; to oversee the management of the business and affairs of the Company and its subsidiaries (collectively the "**Group**"); to supervise the management of the business and affairs with the objective of enhancing the Company and its shareholders' value with the proper delegation of the power to the management for its day-to-day operation; to implement the Board's decision by implementing the budgets and strategic plans and developing the organisation of the Company.

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2016 and the six months ended 30 June 2017 respectively.

Composition

The Board reviews and approves corporate matters such as business strategies and investments as well as the general administration and management of the Group. The Board currently consists of three executive Directors and four independent non-executive Directors ("**INED(s)**"):

Executive Directors:
Mr. Cheng Wai Keung
Mr. Tam Tak Wah
Ms. Tsang Ching Man

Independent non-executive Directors:
Mr. Albert Saychuan Cheok *(Chairman)*
Mr. Chan Tsz Kit
Mr. Chan Yim Por Bonnie
Mr. Wang Li

The Directors as aforesaid, accompanied by their respective biographical details, are listed in the section of "Biographical Details of Directors and Senior Management" in this annual report and that the INEDs are expressly identified in all the Company's publication such as announcement, circular or relevant corporate communications in which the names of Directors of the Company as disclosed.

Out of the four INEDs, Mr. Chan Tsz Kit possesses appropriate professional accounting qualifications and related financial management expertise required under Rule 3.10(2) of the Listing Rules. Each of the INEDs has made an annual confirmation of independence as required under Rule 3.13 of the Listing Rules. The Company considered all INEDs are independent.

The Company considers that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company and that the current Board size is adequate for its present operations. Each of the Directors keeps abreast of his/her responsibilities as a director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company.

The Board has regularly reviewed the contribution required from the Directors to perform their responsibilities to the Company, and whether they are spending sufficient time performing them.

Board Meetings

The Board conducts meeting on a regular basis at approximately quarterly intervals and on an ad hoc basis, as required by business needs. The articles of association of the Company (the "**Articles**") allow Board meetings to be conducted by way of telephone or otherwise orally and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director has a conflict of interest. Notices of regular Board meetings were served to all Directors at least 14 days before the meetings while reasonable notice is generally given for other Board meetings so as to ensure that each of them had an opportunity to attend the meetings. Agendas and accompanying Board papers were given to all Directors in a timely manner before the appointed date of Board meetings and at least 3 days before the regular Board meetings. All Directors are given an opportunity to include matters in the agenda for regular Board meetings. Sufficient information was also supplied by the management to the Board to keep the Directors apprised of the latest developments and financial position of the Company and to enable them to make decisions, which are made in the best interests of the Company. Separate independent professional advice would be provided to the Directors, upon reasonable request, to assist them to discharge their duties. The Company has also arranged appropriate insurance cover in respect of legal action against the Directors. Minutes of Board meetings recorded in sufficient detail of matters considered and the decisions reached were kept by the company secretary and available for inspection by the Directors.

The attendance record of each Director at Board meetings and general meeting is set out below:

	Attendance/Number of		
Name of Directors	**Board Meetings**	**Extraordinary General Meetings**	**Annual General Meeting**
Mr. Cheng Wai Keung	30/30	2/2	1/1
Mr. Tam Tak Wah	30/30	2/2	1/1
Ms. Tsang Ching Man	30/30	2/2	1/1
Mr. Chan Tsz Kit	24/24	2/2	1/1
Mr. Chan Yim Por Bonnie	24/24	2/2	1/1
Mr. Albert Saychuan Cheok	24/24	2/2	1/1
Mr. Wang Li	21/24	0/2	0/1

The chairman promotes a culture of openness and debate by facilitating the effective contribution of INEDs in particular and ensuring constructive relations between executive Directors and INEDs. During the Year, the chairman held a meeting with the INEDs without the presence of executive Directors.

Chairman and Chief Executive Officer

Under the code provision A.2.1, the roles of chairman and chief executive officer ("**CEO**") should be separate people and should not be performed by the same individual. The divisions of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The chairman, Mr. Albert Saychuan Cheok who is an INED, has led the Board and ensured that the Board works effectively and that decisions of the Board are taken on a sound and well-informed basis and in the best interest of the Company and all important issues are discussed in a timely manner, while the CEO, Mr. Lyu Guoping, implements major strategies and policies of the Company. The positions of the chairman and the CEO of the Company are held by separate individuals so as to ensure an effective segregation of duties and a balance of power and authority.

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

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. None of the existing INEDs 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 ("**AGM**") under the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the corporate governance practices of the Company are no less exacting than those in the CG Code.

Appointments, Re-election and Removal of Directors

The procedures and process of appointment, re-election and removal of Directors are laid down in the Articles. The Board as a whole is responsible for reviewing the Board composition, monitoring the appointment of Directors and assessing the independence of INEDs.

Under the code provision A.4.2 and in accordance with the Articles, directors are subject to retirement by rotation at least once every three years and any new directors appointed to fill a casual vacancy or as an addition to the board should be subject to election by shareholders at the next AGM after their appointment.

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

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

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

Board Diversity Policy

The Board has adopted a board diversity policy (the "**Policy**") which sets out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates will be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to gender, age, experience, cultural and educational background, expertise, skills and know-how. The ultimate decision shall be based on merit and contribution that the selected candidates will bring to the Board.

The Nomination Committee will monitor the implementation of the Policy and review the Board composition under diversified perspectives annually to ensure the Board has a balance of skills, experience and diversity of perspectives appropriate to the needs of the businesses of the Company. As at the date of this report, the Board comprises seven Directors. One of them is a woman. Four of them are INEDs, thereby promoting critical review and control of the management process. The Board is also characterised by significant diversity, whether considered in terms of gender, nationality, professional background and skills.

Directors' Continuous Training and Development Programme

All Directors are provided with necessary induction and information to ensure that they have a proper understanding of the operations and businesses of the Company as well as their responsibilities under relevant statues, laws, rules and regulations. Moreover, Directors are provided with monthly updates on the Company's performance, position and prospects to enable the Board as a whole and each Director to discharge their duties.

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the Year, all Directors are provided with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements. Some Directors also attended seminars and/or conferences and/or talks organised by professional bodies on topics including corporate governance, Listing Rules updates, legal supervising or financial updates. A summary of training received by Directors during the year ended 31 December 2017 according to the records provided by the Directors is as follows:

Name of Directors	Types of Training
Mr. Cheng Wai Keung	B
Mr. Tam Tak Wah	A, B
Ms. Tsang Ching Man	A, B
Mr. Chan Tsz Kit	B
Mr. Chan Yim Por Bonnie	A, B
Mr. Albert Saychuan Cheok	A, B
Mr. Wang Li	B

A: Attending seminars and/or conferences and/or talks

B: Reading updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements

BOARD COMMITTEE

The Board has established three committees, namely, the Remuneration Committee, the Nomination Committee and the Audit Committee (collectively "**Board Committees**"), with defined written terms of reference which are in line with the code provisions of the CG Code describing their respective authority and duties and for overseeing particular aspects of the Company's affairs. The terms of reference of the Board Committees are set out in the websites of the Company (www.intl-standardresources.com) and the Stock Exchange (www.hkexnews.hk). All the members of the Board committees are INEDs. All Board Committees are provided with sufficient resources to discharge their duties, and upon reasonable request, are able to seek independent professional advice in appropriate circumstances, at the Company's expense. Minutes of the Board Committees meetings recorded sufficient detail of matters and the decisions reached were kept by the company secretary and available for inspection by the respective committee members.

Remuneration Committee

The Remuneration Committee is responsible for reviewing and making recommendations to the Board on the overall remuneration structure and policy, determining the specific remuneration packages of all executive Directors and the senior management as well as making recommendations to the Board the remuneration of non-executive Directors with reference to the corporate goals and objectives of the Board. No Director takes part in any discussion on his/her own remuneration. Currently, members of the Remuneration Committee comprise Mr. Chan Tsz Kit, Mr. Chan Yim Por Bonnie *(Chairman)*, Mr. Albert Saychuan Cheok, and Mr. Wang Li, all of whom are INEDs.

The Remuneration Committee held a meeting during the Year and has reviewed the remuneration policy and structure of the Company and the remuneration packages of all Directors and the senior management with reference to the corporate goals and objectives of the Board. The attendance record is set out below:

Name of Directors	**Attendance/Number of Remuneration Committee Meeting**
Mr. Chan Yim Por Bonnie *(Chairman)*	1/1
Mr. Chan Tsz Kit	1/1
Mr. Albert Saychuan Cheok	1/1
Mr. Wang Li	0/1

Nomination Committee

The Nomination Committee is responsible for, take into account candidates' qualifications, in particular any qualifications as required in the Listing Rules, ability, working experience, leadership and professional ethics in considering and recommending to the Board suitable persons for appointment as Directors, reviewing the structure, size and composition of the Board to ensure that it has a balance of expertise, skills and experience to complement the corporate strategy of the Company, and assessing the independence of the INEDs. Currently, members of the Nomination Committee comprise Mr. Chan Tsz Kit, Mr. Chan Yim Por Bonnie, Mr. Albert Saychuan Cheok (*Chairman*), and Mr. Wang Li, all of whom are INEDs.

The Nomination Committee held a meeting during the Year and has reviewed the structure, size and composition (including the skills, knowledge and experience) of the Board. The attendance record is set out below:

Name of Directors	**Attendance/Number of Nomination Committee Meeting**
Mr. Albert Saychuan Cheok *(Chairman)*	1/1
Mr. Chan Tsz Kit	1/1
Mr. Chan Yim Por Bonnie	1/1
Mr. Wang Li	0/1

Audit Committee

The Audit Committee is responsible for assisting the Board in providing an independent view of the effectiveness of the financial reporting process and internal control and risk evaluation, overseeing the audit process, and liaison among shareholder, the Board and the auditor of the Company. No former partner of the Company's existing auditing firm acted as a member of the Audit Committee within one year from ceasing to be a partner or having any financial interest in the auditing firm. Currently, members of the Audit Committee comprise Mr. Chan Tsz Kit *(Chairman)*, Mr. Chan Yim Por Bonnie, Mr. Albert Saychuan Cheok, and Mr. Wang Li, all of whom are INEDs.

Two meetings were held during the Year. The Audit Committee reviewed (i) the audited financial statements for the year ended 31 December 2016 and unaudited interim financial statement for the six months ended 30 June 2017 of the Group with recommendation to the Board for approval; (ii) the accounting policies adopted by the Group and issues related to accounting practices with the senior management and auditor of the Company, the audit scope and fees, and qualifications, independence and performance of the auditor of the Company; and (iii) the financial reporting system and internal control and risk management systems of the Group. The attendance record is set out below:

Name of Directors	**Attendance/Number of Audit Committee Meetings**
Mr. Chan Tsz Kit *(Chairman)*	2/2
Mr. Chan Yim Por Bonnie	2/2
Mr. Albert Saychuan Cheok	2/2
Mr. Wang Li	2/2

CORPORATE GOVERNANCE FUNCTIONS

The Board is responsible for performing the following corporate governance duties as required under the CG Code:

(a) to develop and review the Company's policies and practices on corporate governance and make recommendations to the Board;

(b) to review and monitor the training and continuous professional development of Directors and senior management;

(c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;

(d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and

(e) to review the Company's compliance with the CG Code and disclosure in the Corporate Governance Report.

INTERNAL CONTROL AND RISK MANAGEMENT

The Board is responsible for ensuring sound and effective risk management and internal control systems to safeguard the shareholders' interests and the Company's assets. The Group has outsourced the internal control systems auditing function. The outsourced internal auditor reports directly to the Audit Committee and is responsible for conducting regular audits on the major activities of the Group. The objective is to ensure that all important controls, including financial, operational compliance, and risk management functions are in place and functioning effectively.

Internal Control

During the Year, the Audit Committee approved the annual internal audit plan. The plan includes a number of cyclical reviews of key operational functions to ensures that, while there is focus on areas deemed to be higher risk, all parts of the business will be covered over a three-year cycle. The annual internal audit plan will be reviewed on a periodic basis to ensure that it is adapted as necessary to any changes in the Group's risk profile.

The Board has received a report from the outsourced internal auditor summarising the audits concluded in the Year. The report summarised internal audit findings and any action to be taken by management as a result. A summary of the internal audit activities during the Year is as follows:

(a) performed operational audits on business units of the Group to ascertain the adequacy and integrity of their system of internal controls and made recommendations for improvement where weaknesses were found; and

(b) conducted follow-up review to determine the adequacy, effectiveness and timeliness of actions taken by the management on audit recommendations and provided updates on their status to the Audit Committee.

After each audit, the findings and recommendations for improvement will be communicated to the respective management for their responses and corrective actions. The Audit Committee has reviewed the findings and recommendations made by the outsourced internal auditor and have ensured that any issues arising from the audit are appropriately resolved by management in an efficient and timely manner.

It should be recognised that such an audit can comply provide reasonable and not absolute assurance against material misstatement or loss, as it is designed to manage rather than eliminate those risks that may affect the Company in achieving its business objectives.

Risk Management

The successful management of risk is essential for the long term growth and sustainability of the Group's business. The principal activities of the Group are the coalbed methane exploration and exploitation in the PRC, sale of electronic components and treasury which includes securities trading and money lending. These can only be achievable if certain risks are managed effectively.

The Board has overall accountability for determining the type and level of risk it is prepared to take. The Board is assisted by the Audit Committee which seeks to identify risks for Board's consideration. Further, the Audit Committee monitors, and deploys appropriate actions to control or mitigate the risks. They also assess the likelihood of these risks occurring. Risk mitigation factors are reviewed and documented based on the level and likelihood of occurrence. The Audit Committee reviews the risk register and monitors the implementation of risk mitigation procedures via executive management.

Based on the report from the outsourced internal auditor, the Board considers the internal control and risk management systems of the Group are adequate and effective and the Group has complied with the CG Code.

COMPANY SECRETARY

The company secretary is a full time employee of the Company. She is also the executive Director, the authorised representative and the chief financial officer of the Company. The company secretary has day-to-day knowledge of the Company's affairs. The company secretary reports to the chairman and is responsible for advising the Board on governance matters. For the Year under review, the company secretary has confirmed that she has taken no less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules. The biographical details of the company secretary are set out on page 17 of this annual report.

FINANCIAL REPORTING

Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements which give a true and fair view of the state of affairs of the Group as at 31 December 2017, results and cash flows for the year then ended and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance; appropriate accounting policies have been selected, consistently used and applied, and reasonable judgements and estimates are properly made. As at 31 December 2017, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the ability of the Company to continue as a going concern. Accordingly, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements. The statement of the auditor of the Company regarding their responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 53 to 59 of this annual report.

Auditor's Remuneration

During the Year, the fees paid to the auditor of the Company comprise services charges for the following:

	2017	2016
	HK$'000	*HK$'000*
Statutory audit	**600**	570
Review of interim results	**130**	130
Other non-audit services provided for:		
– Rights issue	**141**	–

SHAREHOLDERS' RIGHTS

Enquiries to the Board

The shareholders may direct their questions about their shareholdings to the share registrar of the Company, Tricor Standard Limited at Level 22, Hopewell Centre, 183 Queen's Road East, Hong Kong. They may also at any time make a request for the Company's information to the extent such information is publicly available and make enquiries to the Company with the contact details provided by post, telephone, fax or email.

Convening Extraordinary General Meeting and Putting Forward Proposals at Shareholders' Meetings

In accordance with Sections 566, 567 and 568 of the Companies Ordinance (Chapter 622 of the Laws of Hong Kong) (the "**Ordinance**"), shareholders representing at least 5% of the total voting rights of all the shareholders of the Company having a right to vote at general meetings can send a written request to convene an extraordinary general meeting ("**EGM**") in hard copy form (by depositing at the registered office of the Company at Unit E, 29/F., Tower B, Billion Centre, No. 1 Wang Kwong Road, Kowloon for the attention of the Board) or in electronic form (by email: info@isrhl.com). Such requisition, signed by the shareholders concerned, must state the general nature of the business to be dealt with at the meeting and may include the text of a resolution that may properly be moved and is intended to be moved at the meeting. If the Directors do not within 21 days from the date of the deposit of a request (after being verified to be valid) proceed to convene an EGM on a day not more than 28 days after the date on which the notice convening the EGM is given, the shareholders concerned, or any of them representing more than one-half of the total voting rights of all of them, may themselves convene an EGM, but any EGM so convened shall not be held after the expiration of three months after the date on which the Directors become subject to the requirement to call a meeting.

To put forward proposals at the shareholders' meeting, shareholders are requested to follow Sections 580 and 615 of the Ordinance, which a request in writing must be made by:

(a) shareholders holding at least 2.5% of the total voting rights of all shareholders having the right to vote at the shareholder's meeting; or

(b) at least 50 shareholders holding shares of the Company having the right to vote at the meeting,

to the Company to give to shareholders notice of any resolution which may properly be moved and is intended to be moved at an AGM, or to circulate to shareholders any statement of not more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at any general meeting.

The written request must be signed by all the shareholders concerned in one or more documents in like form and deposited at the registered office of the Company for the attention of the Board not less than six weeks before the meeting in the case of a requisition requiring notice of a resolution, and not less than one week before the meeting in the case of any other requisition. Upon the request verified to be valid, the Company will give notice of the resolution or circulate the statement.

If a shareholder of the Company intends to propose a person other than a Director for election as a director of the Company at any general meeting, the shareholder concerned shall lodge with the registered office of the Company for the attention of the company secretary (i) a written notice of his intention to propose that person for election as a director of the Company; and (ii) a notice in writing by that person of his/her willingness to be elected together with the necessary information within the period commencing no earlier than the day after the despatch of the notice of the general meeting and ending no later than seven days prior to the date of such general meeting.

Detailed procedures can be found in the following documents which are available on the Company's website:

- "Shareholders Communication Policy"
- "Procedures for shareholders to propose a person for election as a director"

COMMUNICATION WITH SHAREHOLDERS

The Board endeavours to maintain an on-going dialogue with shareholders and, in particular, use AGM or other general meetings to communicate with shareholders and encourage their participation.

Separate resolutions are proposed at general meetings on each substantially separate issue, including the election of individual Directors.

Details of poll voting procedures will be explained during the proceedings of meetings. The poll results will be posted on the websites of the Company and the Stock Exchange following the general meetings.

The general meetings of the Company provide an opportunity for communication between the shareholders and the Board. The chairman of all the committees or in the absence of the chairman of such committee, another member of the committee or failing this, his duly appointed delegate, is available to answer questions at the general meetings.

To promote effective communication, the Company maintains websites at www.intl-standardresources.com, which contains corporation information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Company, to enable the shareholders of the Company to have timely and updated information of the Company. Shareholders can refer to the "Shareholders Communication Policy" posted on the website of the Company for more details.

CONSTITUTIONAL DOCUMENTS

During the Year, there is no change in the Company's constitutional documents.

The latest and consolidated version of the Articles is available for inspection on the websites of the Company and the Stock Exchange.

On behalf of the Board
Albert Saychuan Cheok
Chairman

Hong Kong, 28 March 2018

I. ABOUT THIS REPORT

The purpose of preparing this Environmental, Social and Governance Report (the "**ESG Report**") is not only to communicate the sustainability strategies, management approaches and performances of International Standard Resources Holdings Limited (stock code: 91) and its subsidiaries (collectively the "**Group**") with the stakeholders, but also strengthen the Group's understanding towards its ongoing activities in sustainable development of the societies and environment as a whole. This ESG Report summarises the efforts and achievements made by the Group in corporate social responsibility and sustainable development.

The Group hopes to develop its business objectives and creates shareholder value, while at the same time protects the ecological environment by fully utilising resources and minimising the emission of pollutants during operation. Being a responsible and visionary corporate citizen, the Group has to balance the relationship between operations and environment by continuously optimising operations management, business strategies and policies on environmental protection, training and development, and community investment; and contribute towards the sustainable development of the globe, human being and its business.

Scope and Period of Reporting

The ESG Report mainly covers the coalbed methane and electronic component businesses of the Group and presents the Group's strategic approach to sustainability and performance in the environmental and social aspects of its businesses for the reporting period from 1 January to 31 December 2017. The ESG Report does not cover treasury business as it only accounts for 4.02% of the Group's revenue. A summary of the environmental indicators and the performance data are listed out at the "Environmental Performance Data Summary" section to this report.

Reporting Guidelines

The ESG Report has been prepared in accordance with the updated Environmental, Social and Governance Reporting Guide issued by The Stock Exchange of Hong Kong Limited, as set out in Appendix 27 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited.

II. ENVIRONMENTAL PROTECTION

1. Management of Emissions

Coalbed Methane Business

Coalbed methane (hereinafter referred to as "**CBM**") is a kind of quality natural gas existing in coal mines. The People's Republic of China (the "**PRC**") is estimated to have the world's third largest coalbed methane resources, which will play an important role in the country's plan to become a low-carbon economy. CBM is not only an effective alternative energy source for the PRC, the exploration and utilisation of it could also be helpful to avoid coal mine accidents as well as reducing the emission of methane, a major type of greenhouse gas. To achieve the target of developing business in an economical, clean and safe way, the Group developed the CBM business in the PRC since 2008. The Group, via its wholly-owned subsidiary Canada Can-Elite Energy Limited ("**Can-Elite**"), runs the CBM business in Anhui Province, the PRC. Its principal business activities are coalbed methane exploration, development and production. Can-Elite entered into the production sharing contract with China United Coalbed Methane Corporation Limited ("**China United**", a state-owned CBM company wholly-owned by China National Offshore Oil Corporation and authorised by the PRC government to partner with foreign companies to explore, develop and produce CBM assets). Can-Elite and China United can explore and exploit the CBM assets in Su'nan, Anhui Province, for a term of 30 years starting in April 2008. The Su'nan project of the Group is now at the exploration stage.

To implement the national environmental policy and comply with national laws and regulations, the Group has the following measures relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.

(a) Air and greenhouse gas emissions

CBM is a form of natural gas extracted from coal beds. It is generated through the thermal maturation of organic matters during the formation of coal underground. CBM is colorless, smell-less, non-toxic and with high calorific value. It consists mostly of methane, but may also contain trace amounts of carbon dioxide and/or nitrogen. The composition of CBM varies in different districts. CBM is discharged from coalbed through exhaust pipes. During exploration stage, to minimise pollutants, the Group combusts methane at the vent. During this process, no ash is generated and methane becomes water vapor.

(b) *Discharges into water*

The presence of groundwater is used to maintain high pressure in the coal seam so that methane can be absorbed into the solid coal matrix. CBM can be extracted from the coal seam using hydraulic fracturing technique in which coal or rock is fractured by a pressurised liquid. The process involves the high-pressure injection of “fracking fluid” which is primarily water, containing sand or other proppants suspended with the aid of anti-swelling agents. The purpose is to clean out the access to the coal seam and raise its permeability so that CBM can desorb from the coal and flow as a gas up the well to the surface. Only small grains of opponents are used to minimise the risks of ground and surface water contamination. The pressurised liquid brought to the surface and drain to a reservoir first. It may contain undesirable concentrations of dissolved substances such as potassium, sodium and other salts. Only small amount of produced water is extracted during the exploration stage and after evaporation, small grain of crystal is deposited at the bottom of the reservoir.

(c) *Discharges into land*

The amounts of solid wastes (hazardous and non-hazardous) generated during exploration stage are negligible, and hence its impact on environment is insignificant.

Electronic Component Business

Energy consumption accounts for a major part of its greenhouse gas emissions. Therefore, various energy saving measures (refer to below section “Management of Resources Utilisation” for details) have been undertaken to improve energy efficiency and reduce energy consumption of the operations in order to reduce the impact on the environment. The sale of electronic components business does not involve any production process. It is made on an indent basis. Goods are delivered directly from suppliers to customers. Therefore, no packing material is used, and no solid waste is generated from handling damaged goods. Waste management of the operations mainly involves the collection of waste paper for recycling (refer to below section “Management of Resources Utilisation” for details). No hazardous waste is generated in connection with the business.

2. Management of Resources Utilisation

To comply with the relevant laws, regulations and policies on resource conservation, the Group has established policies and procedures on management of resources utilisation. The production departments and offices of the CBM business have set up various resource saving measures to ensure that every employee understands the importance of resource conservation and, through a number of measures, employees can make full use of their resources to maximise their effectiveness and avoid wastage. Although the electronic components business does not involve any production, the employees contribute to environmental protection through various measures in conserving electricity, water and paper at offices.

(a) Energy Conservation

Conserving electricity serves the double purpose of helping stop global warming and saving money over time. Strict requirements at CBM wells in using electricity are set. The operating time of electrical equipment within CBM wells is strictly controlled. All electrical equipment and electrical wiring are regularly inspected to keep them in good condition and maximise their energy efficiency. If problem is found, they are repaired or replaced immediately. Complete inspection record are maintained.

Energy management system sets various measures to save electricity and increase energy efficiency of electrical appliances. Staffs are encouraged to change their daily habits in using appliance that operates on electricity. These measures include using energy-saving lights, using natural light whenever possible instead of relying on artificial light, switching off electrical appliances like lights, computers, printers, scanners, television sets, air-conditioners, etc. when not in use. The use of air-conditioner is restricted and adjusted in connection with seasonal and temperature change. Air-conditioners are turned off when windows are opened and cleaned up regularly in order to raise its efficiency.

Policies relating to business cars are established to restrict its use and fuel consumption. Measures like reducing the car use frequency and encouraging the use of public transportation instead of driving can save fuel. Furthermore, business cars are maintained and inspected regularly to maximise its fuel efficiency.

During the reporting period, the Group's business consumed 57.41 megawatt hours of electricity, 0.89 tonnes of diesel and 13.65 tonnes of gasoline. With reference to the guidelines of the Greenhouse Gas Protocol and the regional emission factors, greenhouse gas emissions are calculated from the above-mentioned data. Besides, the total carbon dioxide emission during the reporting period was equivalent to 125 tonnes, including 81 tonnes of Scope 1 emissions and 44 tonnes of Scope 2 emissions.

(b) Water Conservation

Water conservation starts from changing daily habits. The Group hopes that every employee can make full use of water resources and reduce waste. All production departments and offices should regularly check the water facilities, pipelines and faucets in their area so as to eliminate the waste of water. The Group also reminds its staff to raise their awareness of water conservation. If any pipeline or valve is found damaged, the Group should immediately notify the maintenance department for repair. During the reporting period, the Group's business consumed 72 tonnes of water.

(c) Paper Conservation

Paper is an important natural resource. The Group promotes saving papers and avoiding wastage through unified purchasing, minimise photocopying and printing, reuse single-sided papers, recycle double-sided printed papers and distribute files in electronic format. During the reporting period, the Group's business consumed 2.39 tonnes of paper.

Compliance

In 2017, there were no confirmed non-compliance incidents in relation to environmental protection that have a significant impact on the Group.

3. Environment and Natural Resources

Although the impact on the environment and natural resources during the exploration, pilot testing and overall development proposal preparation stages of CBM is not significant, the Group always stay alert to actively avoid any incident which might cause damage to the environment, prepare to restore and rescue should such undesirable events happen, and to protect biodiversity and natural habitats. The Group established policies and procedures to mitigate its operation impact on the environment and natural resources (refer to above section "Management of Emissions" for details). The Group also focused on the environmental education and advocacy among staff. Various resources saving measures are implemented to raise the awareness of the people to understand the importance of resource conservation. They are encouraged to make full use of resources, to maximise their effectiveness and to avoid wastage of resources (refer to above section "Management of Resources Utilisation" for details).

III. EMPLOYMENT AND LABOUR PRACTICES

The Group adhered to the concept of people-oriented governance and established a set of talent management mechanisms. To create a harmonious and comfortable working environment for employees, to create an equal competition mechanism within the company, to regulate staff promotion, promotion process, and through regular training activities, to provide staff room for development in a pragmatic, conscientious, united and progressive manner.

Talent Selection

The Group always recruits staff based on the principles of transparent selection and appointment, adherence to non-discrimination, and strived to protect the personal privacy of employees. Staff recruitment and selection are based on the criteria of knowledge, ability, morality and job requirements. Employ fair and open to recruit talented and qualified personnel without racial, religious, national, gender, age, marital status and disability differences. In providing promotion ladder, all employees were under fair opportunities, with performance appraisal, training and personal development, and hope that employees and the Group can develop together to achieve a win-win situation.

Labour Standards

The Group's human resources policies and procedures, and management system conform and comply with the local labour laws and regulations, including human rights and labour standards. The Group promises to protect labour rights, strictly prohibit any unethical hiring practices, including child labour and forced labour in the workplace. During the recruitment process, the Group reviews the identity documents of the applicants and never hires any applicant under the legal working age. The working hours of staff are in line with the relevant local labour laws and regulations. Staff consent for working overtime is needed so as to prevent forced overtime work; and they are compensated in accordance with the requirement of the local laws and regulations.

Compensation and Welfare

The Group attracts and retains outstanding talents with competitive remuneration packages and regularly examines their salary levels to ensure it is up to standard. The Group collects up-to-date remuneration data for the industry and strives to establish a fair, reasonable and competitive remuneration system. Staff salaries level are decided based on one's knowledge, skills, experiences and education background relevant to their work requirements. Basic remuneration of employees includes salary, bonuses and subsidies (for example, overtime, meal, telecommunication, housing allowances, holiday subsidy, marriage subsidy, etc.). If illness or disability is caused by work injury, the employee is or his/her immediate families can get disability subsidy or one-time pension in accordance with national law.

Office implements 5-day work policy. The basic working hours and overtime policy vary in different corporates. Staffs at well site turn duty and leave according to roster prepared by department head. The Group strictly complies with the national and local labour law and regulations. Employees are entitled to rest day and statutory holidays, and other benefits such as paid annual leave, sick leave, marriage leave, maternity leave, paternity leave, funeral leave, etc.

Employees are entitled to retirement protection scheme. Staffs in the PRC participate in the social security scheme including the “five insurance and housing provident fund” and staffs in Hong Kong participate in mandatory provident fund scheme. In addition, the Group provides staffs with medical care and general body check subsidies. The Group terminates and compensates staffs in accordance with local laws and regulations.

Development and Training

Each corporate develops its training programs for staffs according to the actual needs, explores the potential of staffs, improves work performance and cultivates good learning atmosphere. The Group hopes to improve the management standard and skills of the staffs continuously, promote ethical business conduct and teamwork.

The Group provides both internal and external training to staffs in the PRC. Internal training covers professional knowledge, industry information, management skills, and other aspects that are of interests to staffs. Internal training is conducted in seminar or conference format. External training can be divided into three categories: (1) regular practical training (involved professional technical knowledge, selling skills, management measures, leadership skills, corporate mission, etc.); (2) training for senior management (including corporate strategies and development); and (3) personal learning (like professional certification). Professionals, such as mining staffs of well site, need to undergo rigorous safety training. Every new hire has to attend new staff orientation, including corporate culture, duties of various departments, company policy, corporate and industry knowledge, company businesses, entrepreneurship, organisational structure, as well as professional and technical training, such as departmental job design and work processes, company standard operating skills, sales and marketing skills, management and leadership skills, etc. Only qualified staffs are eligible to report to duties. Outstanding and experienced staffs of each department are selected as mentor. Staffs can volunteer themselves to take up the mentor’s role. Staffs are selected based on their good performance for receiving training from mentor. The training contents cover the ideology and corporate culture; training for professional knowledge and skills; problem solving skills; and guidance for projects and practices. The training assessment report of the staff trainee is linked with the assessment on his/her performance. If the staff failed in the assessment, the respective department is responsible to arrange extended training or transfer. In turn, the Group can better understand the staff’s capability and assign appropriate job duties to them.

The Group provides on-the-job training to staffs in Hong Kong. For new staff, they receive training on corporate culture, industry knowledge, job responsibilities and so on, from the personnel department and other department heads. Directors and professionals such as chief financial officer, finance manager, company secretary, human resources and administration manager, etc., participate in external training held by qualified organisations regularly in the form of lecture. During the reporting period, training topics includes corporate governance, business valuation, audit, financial reporting, banking products, labour contracts, and so on.

Health and Safety

In order to consistently implement the "Safety First and Take Good Precaution" principle, the Group strengthens its safety management of CBM mining to prevent fire outbreak, explosion, personal injury and death and to protect lives and property. The Group adopted the health, safety and environment management system, a scientific management system that focuses on prevention application with leadership commitment, top-to-bottom involvement and continuous improvement. The Group formulates strict safety management regulations, and has stern safety requirements regarding CBM field layout, ground equipment, electricity current testing, vehicle use and fire suppression system requirement. In addition, a work safety responsible staff system is implemented to check and maintain critical equipment periodically, keep full maintenance records and take responsibility for equipment-related incidents. Safety issues identified should be dealt with immediately, contingency plan and solution should be established. The Group deploys safety personnel in well site to perform random inspections; and external personnel who needed to enter the well sites are required to undergo a safety briefing prior to being granted access.

In order to effectively prevent and deal with emergencies of each construction site, and to ensure the safety of field staffs and equipment, the Group has established emergency response plan for construction safety. Basic principles include personal safety above all else, and minimise losses. In case of emergency, staffs at the site must report to the emergency response group at once and immediately carry out self-rescue. All members of the emergency response group need to be alert with their full attention, coordinate all communication channels, have adequate emergency vehicles on standby, and wait for instructions from the security and safety department. The emergency response group has to submit report of investigation afterwards, issue alerts to other departments, and to reflect and implement improvement measures to avoid similar incidents.

The Group believes that safety training is the first step to achieve "zero accident". Staffs need to attend 3-level of safety training before they are assigned to work. The training topics include job-related safety guidelines, protective measures (work clothes, helmets, etc.) and all kinds of practical training, etc. Staffs can only report to duties after they have passed all the tests. Safety personnel will provide safety briefings to staffs on an irregular basis, and remind them of the requirements and the importance of safety at construction site. Mining staffs are required to undergo rigorous safety training, with special operation personnel at key positions are required to hold special operating permits.

The Group provides staffs with occupational safety and health environment and necessary occupational protection equipment in compliance with national regulations. Clear and visible warning signs are placed at CBM wells. These include wear helmet, wear protective clothing, fire ban, beware of electric shock and no entry signs. The Group arranges regular health check for staffs with high risk of occupational hazards. Staffs enjoy comprehensive body checks annually, usually carried out during August and September every year. In addition to the insurance required by the state, the Group also purchases accident insurance for staffs. The Group invites fire service department regularly to carry out fire safety training for staffs, conduct fire drills and keep fire extinguishers in good condition with regular checkup to ensure fire safety.

Compliance

During the reporting period, there were no confirmed violations in relation to labour practices that have a significant impact on the Group.

IV. OPERATIONAL PRACTICES

Supply Chain Management

The Group is dedicated to maintaining long-term, stable and strategic cooperative relationships with leading suppliers, and is committed to a strategic procurement-led approach, achieving co-development with the suppliers on the basis of equality and win-win situation. The Group has established supply chain management systems with strict requirements to provide various reporting channels to employees, suppliers, customers and other business parties to report and expose any violations of laws or regulations. During the reporting period, the Group did not have significant issues relating to violations in this respect.

CBM business is in the exploration, pilot testing and overall development proposal preparation stages, and large scale production has not yet commenced. Exploration work is outsourced to contractors and the Group has established strict standards and procedures on the tender process in selecting construction units. The construction units must undergo stringent qualification check and meet the necessary requirements, which include necessary credentials, lawful business operation, satisfactory technical standards, solid financial strength, well-known reputation in the industry, contract abiding, trustworthy and no serious quality and safety incidents in the past three years. The tender process must be confidential, fair and transparent. The members of the tender committee and other related personnel should act in accordance with the Company's business ethical standard, and subject to disciplinary action in case of violations.

Electronic components business involves resale of electronic components. Strict procurement management procedures are established in selecting suppliers and products; and strict product quality control are applied consistently. In order to ensure the competitiveness of suppliers, high quality of products and services, timely delivery and law and regulation compliance, the Group strictly requires segregation of duties throughout the whole process of procurement.

Product Responsibility

In order to provide high-quality and safety products, strict procurement management system is established for the electronic components business. The CBM business has not commenced production.

Policies and procedures for protecting sensitive customer information are established. All employees who may create or have access to files, information, manuscripts, forms and other business information at work, such as customer list, projects, price, sales contracts, whether oral, written or in computer form (including but not limited to), are required to keep confidential. Employees are subject to disciplinary punishment in case of violations.

During the reporting period, the Group's products were not involved in any violations of laws and regulations.

Anti-corruption

The Group advocates obedience to the law, uprightness, honesty and conducting business with high integrity, and has established the "Staff Code of Conduct" and "Regulations regarding Anti-Corruption and Staff Probity and Self-Discipline" and set out a range of anti-corruption (such as prevention of bribery, extortion, fraud and money laundering) standards. Disciplinary inspection monitoring function are embedded into the production and operation process to ensure any violation of rules, regulations and laws regarding taking advantage of job position for personal gain, bribery, extortion, fraud and money laundering can be communicated in absolute confidentiality through different channels, including the existing complaint mailbox and hotline. The Group continues to refine the whistle-blowing system of the Company and is determined in fighting corruption and strives to contribute to the building of a clean society.

During the reporting period, the Group and its employees did not involve in any litigation cases in relation to corruptions.

V. COMMUNITY INVESTMENT

Air pollution problem is increasingly serious in the PRC, the development of clean energy is very imminent. The National Energy Administration developed a "Coalbed Methane Industry Policy" in 2013 with an aim to promote and develop domestic CBM industry. CBM is a valuable energy resource generated in the coal and coal strata, its calorific value is equivalent to natural gas. CBM industry is the rising industry of developing alternative energy source. It signifies the importance of safety production in coal mine, optimisation of energy structure, and protecting the ecological environment. As a CBM corporation, the Group hopes that through the development of CBM industry, it can reduce the proportion of coal consumption, increase natural gas supply, and accelerate the development of unconventional CBM gas, to help reduce air pollution and contribute to the environmental protection.

On top of these, the Group hopes to promote environmental protection through making donations to the organisations working in this area. During the reporting period, the Group makes contributions to World Wildlife Fund, Friends of the Earth and World Green Organisation. The Group hopes to raise social consciousness of environmental protection, draw attention to conservation issues, protecting natural resources, other species and ecological environment indirectly and to build a sustainable future for human and nature together.

The Group is a responsible tax payer, and spares no effort in easing local employment pressure. The Group pays the "five insurance and housing provident fund" for employees in the PRC, and contributes to the mandatory provident fund scheme for employees in Hong Kong. The Group always exercises best practices in business operation, actively promoting green concepts and good development, and has contributed to maintaining a stable society and builds a harmonious community.

VI. VISION OUTLOOK

As a good corporate citizen, the Group hopes to balance between achieving the corporate economic goals and business objectives, and fulfilling their social responsibility. The Group will continue to pay attention to environmental protection, employee care, product/service quality and community contribution so as to create niche for sustainable development.

As for environmental protection, the Group will endeavor to comply with the stringent environmental protection laws and regulations, allocate resources and undertake various environmental improvement projects, including improving exhaust air, sewage and waste treatment facilities. When it comes to employee care, the Group will put employee satisfaction and production safety as the top priority. Through ensuring occupational safety and a competitive system, the Group aims to attract more talents in the technical and management arenas. As far as product quality is concerned, the Group will continue to provide customers with high quality products. For community contribution, the Group is committed to fulfilling its social responsibility by participating in charitable activities and promoting the community's sustainable development.

The Group aims at becoming a respectable enterprise, and hopes to improve business performance and create more meaningful value for its stakeholders through implementing sustainability strategies.

VII. ENVIRONMENTAL PERFORMANCE DATA SUMMARY

	Unit	2017
Greenhouse gases emissions:		
Scope 1	Tonnes	**81.27**
Scope 2	Tonnes	**43.88**
Air emissions:		
Nitrogen oxides	Tonnes	**6.74**
Sulfur oxide	Tonnes	**0.55**
Particular matters	Tonnes	**0.76**
Non-hazardous sewage	Tonnes	**8.61**
Energy and water consumption:		
Electricity	Megawatt hours	**57.41**
Diesel	Tonnes	**0.89**
Gasoline	Tonnes	**13.65**
Water	Tonnes	**72.00**

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2017.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 18 to the consolidated financial statements.

An analysis of the performance of the Group for the year by business and geographical segments is set out in note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 60.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2017.

BUSINESS REVIEW

A fair review of the businesses of the Group, discussion and analysis of the performance of the Group during the year and the material factors underlying its financial performance and financial position as well as the principal risks and uncertainties facing the Group, as required by Schedule 5 to the Hong Kong Companies Ordinance, is set out in the section of "Chairman's Statement" and "Management Discussion and Analysis" on pages 2 to 11 and pages 12 to 16 of this annual report and in note 4 and note 6(2) to the consolidated financial statements. These discussions form part of this directors' report.

Compliance with relevant laws and regulations

During the year, as far as the Directors are aware, there was no material non-compliance with applicable laws and regulations by the Group that has a significant impact on the Group's business and operations.

Environmental policy

The Group recognises its responsibility to protect the environment from its business activities. The Group continually seeks to identify and manage environmental impacts attributable to its operational activities in order to minimise these impacts if possible. The Group aims to maximise energy conversation in its offices by promoting efficient use of resources and adopting green technologies, such as double-sided printing and copying, setting up recycling bins, promoting using recycled paper and reducing energy consumption by switching off idle lightings and electrical appliances.

The Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of the Group's businesses to move towards adhering the 3Rs – "Reduce", "Recycle" and "Reuse" and enhance environmental sustainability.

Relationships with stakeholders

Employees are regarded as the most important and valuable assets of the Group. Competitive remuneration packages and a sound performance appraisal system with appropriate incentives are provided and implemented to attract and motivate employees. In addition, to conform to the market standard, the Group regularly reviews the remuneration package of employees and makes necessary adjustments. Moreover, the Group understands the importance of maintaining good relationship with business partners is vital to achieve its long-term goals. Thus, senior management of the Group have kept good communication, promptly exchanged ideas and shared business update with them as and when appropriate. During the year, there was no material and significant dispute between the Group and its business partners.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 16 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 64 and the movements in reserves of the Company during the year are set out in note 36 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 29 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Convertible notes

Details of movements in the convertible notes are set out in note 28 to the consolidated financial statements. As at 31 December 2017, convertible notes with principal amount of HK$365,000,000 remained outstanding.

On 2 February 2018, the Company has entered into the convertible notes restructuring agreement with the noteholder, pursuant to which the noteholder has agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due 31 December 2018 in the outstanding principal amount of HK$365,000,000 issued by the Company. Upon completion of the stipulated conditions precedent to the convertible notes restructuring agreement, new convertible notes due 31 December 2021 will be issued for the settlement of the existing convertible notes. The restructuring of the convertible notes is subject to the shareholder’s approval at an extraordinary general meeting to be held.

Share options

Under the terms of the share option scheme of the Company (the "**Share Option Scheme**") approved by the shareholders on 11 November 2014 (the "**Adoption Date**"), the Directors may, at their discretion, offer any eligible participants (including any Directors) of the Company or of any of its subsidiaries option(s) to subscribe for shares in the Company (the "**Option(s)**") subject to the terms and conditions stipulated in the Share Option Scheme. A summary of the Share Option Scheme is set out below:

(1) Purpose

(a) To recognise and acknowledge the contributions which the eligible participants have made or may make to the Group.

(b) The Share Option Scheme will provide the eligible participants an opportunity to have a personal stake in the Company with a view to achieve the following objectives:

(i) motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group; and

(ii) attract and retain or otherwise maintain on-going relationship with the eligible participants whose contributions are or will be beneficial to the long term growth of the Group.

(2) Eligible participants

(a) any Director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity; and

(b) any discretionary trust who discretionary objects include any Director (whether executive or non-executive or independent non-executive), employee (whether full time or part time), officer, consultant, customer, supplier, agent, partner or adviser of or contractor to the Group or any Invested Entity;

and for the purpose of the Share Option Scheme, the Option may be granted to any corporation wholly-owned by any person under (a) above.

(3) Total number of shares available for issue

The total number of shares which may be issued upon exercise of all the Options to be granted under the Share Option Scheme and any other share option schemes of the Company must not in aggregate exceed 10% of the shares in issue (or the shares of the subsidiary) as at Adoption Date, being 406,907,955 shares (the "**Scheme Mandate Limit**").

At the annual general meeting of the Company held on 2 June 2016, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription up to a total of 578,765,179 shares, representing 10% of the number of shares in issue as at 2 June 2016.

At the annual general meeting of the Company held on 7 June 2017, an ordinary resolution was passed refreshing the Scheme Mandate Limit so that the Company would be allowed to grant options under the Share Option Scheme for subscription up to a total of 479,079,342 shares, representing 10% of the number of shares in issue as at 7 June 2017.

The overall limit on the number of shares which may be issued upon exercise of all outstanding options granted and yet to be exercised under the Share Option Scheme and any other share option schemes for the time being of the Company shall not, in aggregate, exceed such number of shares as equals 30% of the shares in issue from time to time.

(4) Maximum entitlement of each eligible participant

The total number of shares issued and to be issued upon exercise of the Options granted to an eligible participant (including exercised and outstanding options) in any twelve-month period must not exceed 1% of the shares in issue from time to time.

Subject to separate approval by the shareholders in general meeting with the relevant participant and his associates (as defined in the Listing Rules) abstaining from voting provided that the Company shall issue a circular to shareholders before such approval is sought, the Company may grant a participant options which would exceed this limit.

(5) Option period

The period within which the shares must be taken up under the Option must not exceed 10 years from the date of grant of the relevant option.

(6) Minimum period for which the Option must be held before it can vest

The minimum period, if any, for which the Option must be held before it can vest shall be determined by the Board in its absolute discretion. The Share Option Scheme itself does not specify any minimum holding period.

(7) Payment on acceptance of the Option

HK$1.00 is payable by the grantee to the Company on acceptance of the Option offer. An offer must be accepted within 30 days from the date of grant.

(8) Basis of determining the subscription price

The subscription price shall be determined by the Board in its absolute discretion at the time of the grant but shall not be less than the highest of:

(i) the closing price of the shares on the date of grant; and

(ii) the average closing prices of the shares for the five business days immediately preceding the date of grant.

(9) The remaining life of the Share Option Scheme

The life of the Share Option Scheme is 10 years commencing on the Adoption Date and will expire on 10 November 2024.

As at 31 December 2017, there was no outstanding share option granted to the eligible participants. As at the date of this report, the total number of shares available for issue upon exercise of share options to be granted under the Share Option Scheme is 479,079,342 shares, being 10% of the number of shares in issue on 7 June 2017, representing approximately 10% of the number of shares of the Company in issue.

EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 38 to the consolidated financial statements, the Group had no other material event after the reporting period.

DIRECTORS

The Directors during the year and up to the date of this report are:

Albert Saychuan Cheok* *(Chairman)*
Cheng Wai Keung
Tam Tak Wah
Tsang Ching Man
Chan Tsz Kit*
Chan Yim Por Bonnie*
Wang Li*

* *independent non-executive Directors*

In accordance with articles 104 and 105 of the articles of association of the Company, Mr. Chan Tsz Kit, Mr. Cheng Wai Keung, Mr. Albert Saychuan Cheok and Mr. Tam Tak Wah will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

All the Directors do not have service contracts with the Company or any of its subsidiary companies which is not determinable by the Group within one year without payment of compensation, other than statutory compensation.

During the year and up to the date of this report, Mr. Cheng Wai Keung, Mr. Tam Tak Wah and Ms. Tsang Ching Man are also directors of certain subsidiaries of the Company. Other directors of the Company's subsidiaries include Mr. Chan Chiu Shing, Mr. Lee Wai Nam, Mr. Lyu Guoping, Mr. Ngai Kwok Kin Kevin, Mr. Tsoi Hung Kwan and Mr. Wang Zhiyuan.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the emoluments of each Director and the chief executive of the Company for the year ended 31 December 2017 are set out in note 12 to the consolidated financial statements.

The remuneration of members of the senior management (other than the chief executive of the Company) by band for the year ended 31 December 2017 is set out below:

	Number of individuals	
	2017	2016
Remuneration bands		
Nil to HK$500,000	**2**	2
HK$500,001 to HK$1,000,000	**1**	1

PERMITTED INDEMNITY PROVISION

A permitted indemnity provision that meets the requirements specified in section 469(2) of the Hong Kong Companies Ordinance (Cap. 622) for the benefits of the Directors is currently in force and was in force throughout the year.

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 subsidiary companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

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

As at 31 December 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 pursuant to the Model Code contained in 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 31 December 2017, none of the Directors and chief executive 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.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

Save as disclosed above, at no time during the year was the Company or any of its subsidiary companies a party to any arrangements to enable the Directors or their associates to acquire benefits by means of the acquisition of shares in, or debentures of, the Company or any other body corporate.

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

As at 31 December 2017, the interests and short positions of the substantial shareholders (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be kept in the register under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
Brighten Management Limited *(note 1)*	Beneficial	216,577,500	43,315,500	5.42%
Che Weng Kei *(note 2)*	Beneficial/Corporate	694,806,250	123,276,250	17.08%
Good Max Holdings Limited *(note 3)*	Beneficial	314,708,750	67,206,750	7.97%
Leung Yuk Kit *(note 3)*	Corporate	314,708,750	67,206,750	7.97%
New Alexander Limited *(note 4)*	Beneficial	–	2,147,058,823	44.82%
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 5)*	Beneficial	329,358,125	94,338,291	8.84%
Woody Yeung *(note 5)*	Corporate	329,358,125	94,338,291	8.84%

Notes:

(1) Included 346,609,940 shares and 69,321,988 underlying shares held through its wholly-owned subsidiary, 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) Included 587,931,250 shares and 101,901,250 underlying shares held by Che Weng Kei through a wholly-owned company, Fully Interest Limited.

(3) Good Max Holdings Limited is wholly-owned by Leung Yuk Kit. Accordingly, Leung Yuk Kit is deemed to be interested in the shares held by Good Max Holdings Limited.

(4) 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$365,000,000 as at 31 December 2017.

(5) Woode Investment Limited is wholly-owned by Woody Yeung. Accordingly, Woody Yeung is deemed to be interested in the shares held by Woode Investment Limited.

Save as disclosed above, as at 31 December 2017, the Company has not been notified of any other interests or short positions in 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.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

None of the Directors is interested in any business apart from the Group's business which competes or is likely to compete, either directly or indirectly, with the business of the Group.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

The Company has not redeemed any of its shares during the year. Neither the Company nor any of its subsidiary companies has purchased or sold any listed securities of the Company during the year.

MANAGEMENT CONTRACTS

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or existed during the year.

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue during the year attributable to the Group's five largest customers was 91.67% of the Group's total revenue, of which 42.72% was made to the largest customer.

The aggregate purchase during the year attributable to the Group's five largest suppliers was 97.80% of the Group's total purchases, of which 62.71% was made from the largest supplier.

None of the Directors, their associates or any shareholder who to the knowledge of the Directors owns more than 5% of the Company's share capital has an interest in the suppliers or customers disclosed above.

ANNUAL CONFIRMATION OF INDEPENDENCE

The Company has received the annual confirmation of independence from each of the independent non-executive Directors as required under Rule 3.13 of the Listing Rules. The Company considered all independent non-executive Directors to be independent.

COMPLIANCE WITH THE CODE OF BEST PRACTICE

In the opinion of the Directors, the Company has complied with the Code of Best Practice as set out in Appendix 14 of the Listing Rules throughout the financial year except the deviations set out in the Corporate Governance Report.

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements of the Company for the years ended 31 December 2016 and 2017 were audited by HLM CPA Limited ("**HLM**"). HLM will retire as auditor at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLM as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Albert Saychuan Cheok
Chairman

Hong Kong, 28 March 2018

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

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TO THE SHAREHOLDERS OF INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Incorporated in Hong Kong with limited liability)

OPINION

We have audited the consolidated financial statements of International Standard Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 60 to 145, which comprise the consolidated statement of financial position as at 31 December 2017, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

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

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditor's Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants (the "Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

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

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter
Valuation and impairment assessment of intangible assets	
As set out in note 17 to the consolidated financial statements, the Group has HK$1,085,886,000 of intangible assets (related to production sharing contract) on the consolidated statement of financial position as at 31 December 2017. Management is required to carry out an annual impairment test, which is judgemental and based on a number of assumptions. Recoverable amount of the intangible assets is based on forecasting and discounting future cash flows, which are inherently judgemental. The conclusion of the impairment test was based on a value-in-use model that required significant management estimation with respect to the discount rate and the underlying projected cash flows.	Our audit procedures included, among others: – detailed testing of directors' impairment assessment for the intangible assets; – reviewing the discounted cash flow models and assessed the principles and the model adopted; – critically assessing the Group's key assumptions for its cash flow projections, with reference to internally and externally derived sources and taking into account the Group's historical forecasting accuracy. We assessed the inputs and also made reference to the technical reports prepared by an independent geoscience and engineering consulting company; and – evaluating the independent external valuer's competence, capabilities and objectivity. We found the assumptions made by management and external valuer in relation to the cash flow projection of intangible assets to be reasonable based on available evidence. We found the disclosures in note 17 to the consolidated financial statements to be appropriate.

Key audit matter	How our audit addressed the key audit matter
Valuation of convertible notes – embedded derivatives	
As described in note 28 to the consolidated financial statements, the embedded derivatives portion of convertible notes amounting to HK$1,336,000 was recorded at fair value in the consolidated statement of financial position and was classified as Level 3 financial instruments in accordance with HKFRS 13. The accounting estimate of fair value of the embedded derivatives portion of convertible notes is determined by an independent valuer. We considered this a key audit matter due to the complexity of the valuation model and because model parameters are inherently subject to judgement and estimates applied by management and the independent valuer.	Our audit procedures in relation to the valuation of the convertible notes' embedded derivatives included: – obtaining an understanding of the management process for determining the fair value measurements and of the relevant control; – assessing whether the valuation methodology used by management and the external valuer to estimate the fair value of convertible notes' embedded derivatives is appropriate; – challenging the reasonableness of key assumptions used in the valuation process; – comparing input data to supporting evidence, such as market indicators and considering the reasonableness of the data adopted; and – evaluating the independent external valuer's competence, capabilities and objectivity. Based on available evidence, we found key assumptions of the external valuer and management in relation to the valuation of convertible notes' embedded derivatives to be reasonable. The significant inputs have been appropriately disclosed in note 28 to the consolidated financial statements.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment on other receivables – escrow monies	
As set out in note 22(c) to the consolidated financial statements, the Group has HK$85,000,000 of escrow monies placed with a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group. The Group has instituted legal proceedings for the return of the escrow monies plus interest and cost. We identified this as a key audit matter because the estimation of the recoverable amount of the other receivables for escrow monies involves subjective judgements made by management of the Group and the legal advice sought.	Our audit procedures in relation to management's impairment assessment included: – assessing the Group's impairment assessment processes for the escrow monies receivables and identifying any impairment indicators with consideration of the discounting impact; – assessing the recoverability of the escrow monies placed by checking the financial position of the counterparty; and – obtaining representations from external legal advisers regarding the likely outcome of the claims. We consider management's conclusion to be consistent with the available information.

Key audit matter	How our audit addressed the key audit matter
Impairment assessment of trade receivables	
As described in note 22 to the consolidated financial statements, allowance for doubtful debts recorded at 31 December 2017, which represented management's estimates of the amount potentially irrecoverable and amounted to HK$14,562,000, is excluded from the balance of trade receivables. The Group's allowance for doubtful debts is based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account current market condition, credit history of the Group's customers and customer-specific conditions. We have identified allowance for doubtful debts as a key audit matter because the estimates on which these allowance is based entails a significant degree of management judgement and may be subject to management bias.	Our audit procedures in relation to management's impairment assessment of trade receivables included: – assessing and testing on the process used by management to develop the estimate for the impairment of trade receivables; – reviewing the ageing analysis, and checked the entries on a sample basis; – inquiring management, on sample basis, about the recoverability of individual substantial balances and evaluating the allowance for doubtful debts made by management for these individual balances with reference to the ageing of overdue balances and historical and post year end settlement records; and – reviewing subsequent settlement of trade receivables, which provides audit evidence of the reasonableness of the estimate made. Based on the audit evidence obtained and procedures performed, we found the judgements and estimates for the provision of impairment of trade receivables as at 31 December 2017 was reasonable and supported by corroborative evidence.

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditor's report thereon.

Our opinion on the consolidated financial statements does not cover the other information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THOSE CHARGED WITH GOVERNANCE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA and the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

Those charged with governance are responsible for overseeing the Group's financial reporting process.

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion solely to you, as a body, in accordance with section 405 of the Hong Kong Companies Ordinance, and for no other purpose. We do not assume responsibility towards or accept liabilities to any other person for the contents of this report. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional skepticism throughout the audit. We also:

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.

- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with those charged with governance regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

We also provide those charged with governance with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with those charged with governance, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditor's report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

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

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	7	**16,669**	23,518
Cost of sales		**(14,611)**	(20,273)
Gross profit		**2,058**	3,245
Other income	8	**1,937**	2,293
Other gains and losses	9	**86,775**	28,592
Administrative expenses		**(53,711)**	(53,885)
Amortisation of production sharing contract	17	**(64,663)**	(81,839)
Impairment loss on production sharing contract	17	**(323,032)**	(341,771)
Loss from operations		**(350,636)**	(443,365)
Finance costs	10	**(53,006)**	(54,960)
Loss before tax	11	**(403,642)**	(498,325)
Income tax	14(a)	**99,495**	113,790
Loss for the year		**(304,147)**	(384,535)
Attributable to:			
Owners of the Company		**(303,913)**	(384,448)
Non-controlling interests		**(234)**	(87)
		(304,147)	(384,535)
Loss per share	15		
Basic and diluted (cents per share)		**(6.87)**	(13.04)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2017

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2017

	Notes	2017 HK$'000	2016 HK$'000
Non-current assets			
Property, plant and equipment	16	**99,208**	89,315
Intangible assets	17	**1,085,886**	1,372,832
Other receivables	22	**85,000**	–
Available-for-sale financial assets	19	**1,000**	1,000
		1,271,094	1,463,147
Current assets			
Loan receivables	20	**5,510**	4,129
Financial assets at fair value through profit or loss	21	**29,599**	70,085
Trade and other receivables	22	**3,452**	92,712
Cash and bank balances	23	**34,967**	142,515
		73,528	309,441
Asset classified as held for sale	24	**4,274**	–
		77,802	309,441
Current liabilities			
Other borrowing, unsecured	25	**11,814**	11,265
Trade and other payables	26	**56,387**	51,414
Bonds	27	**23,919**	83,897
Convertible notes – liability portion, unsecured	28	**329,394**	–
Convertible notes – embedded derivatives, unsecured	28	**1,336**	–
Tax payables	14(c)	**3,741**	3,680
		426,591	150,256
Net current (liabilities) assets		**(348,789)**	159,185
Total assets less current liabilities		**922,305**	1,622,332

	Notes	2017 HK$'000	2016 HK$'000
Non-current liabilities			
Bonds	27	**49,879**	67,079
Convertible notes – liability portion, unsecured	28	**–**	403,190
Convertible notes – embedded derivatives, unsecured	28	**–**	105,841
Deferred tax liabilities	14(d)	**270,199**	344,657
		320,078	920,767
Net assets		**602,227**	701,565
Capital and reserves			
Share capital	29	**2,032,227**	1,894,252
Reserves		**(1,425,805)**	(1,188,726)
Equity attributable to owners of the Company		**606,422**	705,526
Non-controlling interests		**(4,195)**	(3,961)
Total equity		**602,227**	701,565

The consolidated financial statements on pages 60 to 145 were approved and authorised for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

Ms. Tsang Ching Man	**Mr. Tam Tak Wah**
DIRECTOR	*DIRECTOR*

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2017

	Attributable to the owners of the Company						
	Share capital	Special capital reserve	Exchange reserve	Accumulated losses	Total	Non-controlling interests	Total equity
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 37(a))	*(note 37(b))*				
At 1 January 2016	1,831,702	579,799	195,582	(1,496,818)	1,110,265	(3,874)	1,106,391
Loss for the year	–	–	–	(384,448)	(384,448)	(87)	(384,535)
Other comprehensive expense for the year	–	–	(82,841)	–	(82,841)	–	(82,841)
Total comprehensive expenses for the year	–	–	(82,841)	(384,448)	(467,289)	(87)	(467,376)
Issue of shares upon exercise of warrants	62,550	–	–	–	62,550	–	62,550
At 31 December 2016 and 1 January 2017	1,894,252	579,799	112,741	(1,881,266)	705,526	(3,961)	701,565
Loss for the year	–	–	–	(303,913)	(303,913)	(234)	(304,147)
Other comprehensive income for the year	–	–	66,834	–	66,834	–	66,834
Total comprehensive income (expenses) for the year	–	–	66,834	(303,913)	(237,079)	(234)	(237,313)
Issue of new shares under rights issue, net of share issue expenses	137,972	–	–	–	137,972	–	137,972
Issue of shares upon exercise of warrants	3	–	–	–	3	–	3
At 31 December 2017	2,032,227	579,799	179,575	(2,185,179)	606,422	(4,195)	602,227

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2017

	Notes	**2017**	2016
		HK$'000	*HK$'000*
Operating activities			
Loss before tax		**(403,642)**	(498,325)
Adjustments for:			
Interest income	8	**(579)**	(453)
Finance costs	10	**53,006**	54,960
Dividend income	8	**(784)**	(1,296)
Gain on fair value change of convertible notes – embedded derivatives	9	**(92,938)**	(83,295)
Gain on disposal of financial assets at fair value through profit or loss	9	**(1,220)**	(762)
Net loss on revaluation on financial assets at fair value through profit or loss	9	**14,907**	43,333
Depreciation of property, plant and equipment	16	**12,174**	12,594
Reversal of interest accrued	8	**(532)**	(532)
Allowance for doubtful debts	9	**1,046**	2,422
Amortisation of production sharing contract	17	**64,663**	81,839
Impairment loss on production sharing contract	17	**323,032**	341,771
Loss (gain) on redemption of convertible notes	9	**5,455**	(1,640)
Loss on property, plant and equipment written off	9	**17**	12
Operating cash flow before movements in working capital		**(25,395)**	(49,372)
Decrease (increase) in financial assets at fair value through profit or loss		**26,799**	(27,283)
(Increase) decrease in loan receivables		**(1,381)**	7,441
Decrease in trade and other receivables		**3,214**	5,190
Increase in trade and other payables		**4,331**	6,702
Cash generated from (used in) operations		**7,568**	(57,322)
Income tax paid		**(91)**	(65)
Interest received		**579**	453
Net cash generated from (used in) operating activities		**8,056**	(56,934)

	Note	2017 HK$'000	2016 HK$'000
Investing activities			
Dividend received		**784**	1,296
Purchase of property, plant and equipment		**(19,379)**	(14,724)
Net cash used in investing activities		**(18,595)**	(13,428)
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**	62,550
Proceeds from issue of bonds		**4,450**	42,930
Interest paid		**(18,892)**	(12,340)
Repayment for other borrowing		**(288)**	(855)
Repayment for bonds		**(87,000)**	–
Payment for redemption of convertible notes		**(119,560)**	(14,700)
Net cash (used in) generated from financing activities		**(83,315)**	77,585
Net (decrease) increase in cash and cash equivalents		**(93,854)**	7,223
Cash and cash equivalents at beginning of year		**142,335**	124,740
Effect of foreign exchange rate changes		**(13,694)**	10,372
Cash and cash equivalents at end of year	23	**34,787**	142,335

1. GENERAL INFORMATION

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

The principal activities of the Group are coalbed methane gas exploration and exploitation in the People's Republic of China (the "PRC"), sale of electronic components and treasury which includes securities trading and money lending. The principal activities of its subsidiaries are set out in note 18 to the consolidated financial statements.

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

Amendments to HKFRSs that are mandatorily effective for the current year

The Group has applied the following amendments to HKFRSs issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") for the first time in the current year:

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ***(Continued)***

Amendments to HKAS 7 Disclosure Initiative

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

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

A reconciliation between the opening and closing balances of these items is provided in notes 25, 27 and 28 to the consolidated financial statements. Consistent with the transition provisions of the amendments, the Group has not disclosed comparative information for the prior year. Apart from the disclosures in notes 25, 27 and 28 to the consolidated financial statements, the application of these amendments has had no impact on the Group's consolidated financial statements.

New and revised HKFRSs issued but not yet effective

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

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

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

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ***(Continued)***

HKFRS 9 Financial Instruments

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

Key requirements of HKFRS 9:

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

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

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

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") ***(Continued)***

HKFRS 9 Financial Instruments ***(Continued)***

Key requirements of HKFRS 9: *(Continued)*

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements have been prepared on the historical cost basis, except for certain financial instruments that are measured at fair values at the end of each reporting period, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value-in-use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

Going concern basis

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Basis of preparation of the consolidated financial statements *(Continued)*

Going concern basis (Continued)

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

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

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

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

The principal accounting policies are set out below.

(c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation *(Continued)*

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intragroup assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

Non-controlling interests in the net assets or liabilities consist of the amount of those interests at the date of the original business combination and their share of changes in equity since the date of the combination.

(d) Interests in joint operations

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

3. SIGNIFICANT ACCOUNTING POLICIES ***(Continued)***

(d) Interests in joint operations ***(Continued)***

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which the group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which the group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

The operation under the production sharing contract as referred to in note 17 to the consolidated financial statements is accounted for as a joint operation.

(e) Non-current assets held for sale

Non-current assets and disposal groups are classified as held for sale if their carrying amount will be recovered principally through a sale transaction rather than through continuing use. This condition is regarded as met only when the asset (or disposal group) is available for immediate sale in its present condition subject only to terms that are usual and customary for sales of such asset (or disposal group) and its sale is highly probable. Management must be committed to the sale, which should be expected to qualify for recognition as a completed sale within one year from the date of classification.

Non-current assets (and disposal groups) classified as held for sale are measured at the lower of their previous carrying amount and fair value less costs of disposal.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

Revenue from sale of coalbed methane products is recognised based on gas consumption derived from meter readings.

Revenue from sale of electronic components is recognised when the goods are delivered and titles have been passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Dividend income from investments is recognised when the shareholders' rights to receive payments have been established.

Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts the estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessee

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

(h) Foreign currencies

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recognised at the rates of exchange prevailing on the dates of the transactions. At the end of the reporting period, monetary items denominated in foreign currencies are retranslated at the rates prevailing at that date. Non-monetary items carried at fair value that are denominated in foreign currencies are retranslated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

Exchange differences arising on the settlement of monetary items, and on the retranslation of monetary items, are recognised in profit or loss in the period in which they arise.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of each reporting period. Income and expenses items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale, are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale.

Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

(j) Employee benefits

Retirement benefit costs and termination benefits

Payments to the mandatory provident fund scheme/state-managed pension scheme are recognised as an expense when employees have rendered services entitling them to the contributions.

The Group operates a defined contribution mandatory provident fund retirement benefit scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. Contributions are made based on a percentage of the employees' basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, in accordance with the rules of the MPF Scheme.

The employees of the Group's subsidiaries which operate in the PRC are required to participate in a central pension scheme operated by the local municipal government. These subsidiaries are required to contribute a certain percentage of their payroll costs to the central pension scheme. The contributions are charged to profit or loss as they become payable in accordance with the rules of the central pension scheme.

A liability for a termination benefit is recognised at the earlier of when the Group entity can no longer withdraw the offer of the termination benefit and when it recognises any related restructuring costs.

Short term employee benefits

Short-term employee benefits are recognised at the undiscounted amount of the benefits expected to be paid as and when employees rendered the services. All short-term employee benefits are recognised as an expense unless another HKFRS requires or permits the inclusion of the benefits in the cost of an asset.

A liability is recognised for benefits accruing to employees (such as wages and salaries, annual leave and sick leave) after deducting any amount already paid.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Employee benefits *(Continued)*

Equity-settled share-based payments arrangements

Share options granted to employees

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value of the equity-settled share-based payments determined at the grant date without taking into consideration all non-market vesting conditions is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest based on assessment of all relevant non-market vesting conditions. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share capital. When the share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to accumulated losses.

(k) Exploration and evaluation expenditure

Exploration and evaluation expenditure comprises costs which are directly attributable to researching and analysing existing exploration data; conducting geological studies; exploratory drilling and sampling; examining and testing extraction and treatment methods and compiling pre-feasibility and feasibility studies. Exploration and evaluation expenditure also includes the costs incurred in acquiring mining rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects.

During the initial stage of a project, exploration and evaluation costs are capitalised as incurred. Expenditure on a project after it has reached a stage at which there is a high degree of confidence in its viability is capitalised and transferred to development assets if the project proceeds. If a project does not prove viable, all irrecoverable costs associated with the project are expensed in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Income tax

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 'profit before tax' as reported in the consolidated statement of profit or loss because of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from the initial recognition (other than in a business combination) of assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit. In addition, deferred tax liabilities are not recognised if the temporary difference arises from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not be reversed in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to be reversed in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset is realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Income tax *(Continued)*

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(m) Property, plant and equipment

Property, plant and equipment including land and buildings, plant and equipment, furniture and fixtures, motor vehicles and leasehold improvements held for use in the production or supply of goods or services, or for administrative purposes, are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent accumulated impairment losses, if any.

Depreciation is recognised so as to write off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. Details are as follows:

Land and buildings	20 years
Leasehold improvements	2 years or over the terms of the lease, if higher
Furniture and fixtures	5 to 10 years
Motor vehicles	5 to 10 years
Plant and equipment	3 to 10 years

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

Construction in progress represents buildings and structures under construction, which is stated at cost less impairment losses. Cost comprises the direct costs of construction as well as borrowing costs during the period of construction. Construction in progress is reclassified to the appropriate category of property, plant and equipment when completed and ready for use. No depreciation is provided in respect of construction in progress until it is substantially completed and ready for its intended use.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Intangible assets

Intangible assets with finite useful lives that are acquired separately are carried at costs less accumulated amortisation and any accumulated impairment losses.

Amortisation for intangible assets with finite useful lives is recognised on a straight-line basis over their estimated useful lives. The estimated useful life and amortisation method are reviewed at the end of each reporting period, with the effect of any changes in estimate being accounted for on a prospective basis.

The following intangible asset with finite useful life is amortised from the date it is available for use and its estimated remaining useful life is as follows:

– Production sharing contract	21.9 years

(o) Impairment of tangible and intangible assets other than goodwill

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the relevant asset is estimated in order to determine the extent of the impairment loss (if any).

When it is not possible to estimate the recoverable amount of an asset individually, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Recoverable amount is the higher of fair value less costs of disposal and value-in-use. In assessing value-in-use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset (or a cash-generating unit) for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or a cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

Where an impairment loss is subsequently reversed, the carrying amount of the asset (or a cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or a cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Inventories

Inventories are stated at the lower of cost and net realisable value. Costs of inventories are determined on a weighted average method. Net realisable value represents the estimated selling price for inventories less all estimated costs of completion and costs necessary to make the sale.

(q) Provisions and contingent liabilities

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, a receivable is recognised as an asset if it is virtually certain that reimbursement will be received and the amount of the receivable can be measured reliably.

Where it is not probable that an outflow of economic benefits will be required, or the amount cannot be estimated reliably, the obligation is disclosed as a contingent liability, unless the probability of outflow of economic benefits is remote. Possible obligations, whose existence will only be confirmed by the occurrence or non-occurrence of one or more future events are also disclosed as contingent liabilities unless the probability of outflow of economic benefits is remote.

(r) Cash and cash equivalents

Cash and cash equivalents comprise cash at bank and on hand, time deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. For the purpose of the consolidated statement of cash flows, bank overdrafts and bank loans, if any, which are repayable on demand and form an integral part of an enterprise’s cash managements are also included as component of cash and cash equivalents.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control of the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of the parent of the Group.

(b) An entity is related to the Group if any of the following conditions applies:

(i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).

(ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

(vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of the parent of the entity).

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(t) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

(u) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets or financial liabilities at fair value through profit or loss) are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at fair value through profit or loss are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into the following specified categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Effective interest method (Continued)

Interest income is recognised on an effective interest basis for debt instruments.

Financial assets at FVTPL

Financial assets are classified as at FVTPL when the financial asset is held for trading, or it is designated as at FVTPL.

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or

- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or

- it is a derivative that is not designated and effective as a hedging instrument.

A financial asset other than a financial asset held for trading may be designated as at FVTPL upon initial recognition if:

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or

- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or

- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

Financial assets at FVTPL are stated at fair value, with any gains or losses arising on remeasurement recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial assets and is included in the 'other gains and losses' line item. Fair value is determined in the manner described in note 6 to the consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as (a) loans and receivables, (b) held-to-maturity investments or (c) financial assets at FVTPL. The Group designated club debentures as AFS financial assets on initial recognition.

Equity and debt securities held by the Group that are classified as AFS financial assets are measured at fair value at the end of each reporting period except for unquoted equity investments whose fair value cannot be reliably measured. Changes in the carrying amount of AFS debt instruments relating to interest income, calculated using the effective interest method, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured are measured at cost less any identified impairment losses at the end of each reporting period.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, loans and receivables (including trade receivables, other receivables, deposits and bank balances and cash) are measured at amortised cost using the effective interest method, less any impairment (see accounting policy on impairment loss on financial assets below).

Interest income is recognised by applying the effective interest rate, except for short-term receivables where the recognition of interest would be immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

For AFS equity investments, a significant or prolonged decline in the fair value of the security below its cost is considered to be objective evidence of impairment.

For all other financial assets, objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organisation; or
- disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are, in addition, assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the average credit period of 60 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, the amount of the impairment loss recognised is the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the financial asset's original effective interest rate.

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

3. SIGNIFICANT ACCOUNTING POLICIES ***(Continued)***

(u) Financial instruments ***(Continued)***

Financial assets (Continued)

Impairment of financial assets (Continued)

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of AFS equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of AFS debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

Financial liabilities and equity instruments

Debt and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the assets of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recognised at the proceeds received, net of direct issue costs.

Repurchase of the Company's own equity instruments is recognised and deducted directly in equity. No gain or loss is recognised in profit or loss on the purchase, sale, issue or cancellation of the Company's own equity instruments.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Financial liabilities

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis.

Financial liabilities at amortised cost

Financial liabilities (including other borrowing, bonds and other payables) are subsequently measured at amortised cost, using the effective interest method.

Warrants

Warrants issued by the Company that will be settled by a fixed amount of cash for a fixed number of the Company's own equity instruments are equity instruments. The proceeds received from the exercise of warrants, net of direct issue costs, are recognised in share capital.

Convertible notes containing debt and derivative components

A conversion option that will be settled by other than the exchange of a fixed amount of cash or another financial asset for a fixed number of the Group's own equity instruments is a conversion option derivative.

At the date of issue, both the debt component and derivative component are recognised at fair value. In subsequent periods, the debt component of the convertible notes is carried at amortised cost using the effective interest method. The derivative component is measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible notes are allocated to the debt and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible notes using the effective interest method.

If the notes are converted, the carrying amounts of the derivative and debt components are transferred to share capital as consideration for the shares issued. If the notes are redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial liabilities and equity instruments (Continued)

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which event the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Embedded derivatives

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL. Generally, multiple embedded derivatives in a single instrument are treated as a single compound embedded derivative unless those derivatives relate to different risk exposures and are readily separable and independent of each other.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group recognises its retained interest in the asset and an associated liability for amounts it may have to pay. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralised borrowing for the proceeds received.

On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or have expired. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable is recognised in profit or loss.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

In the application of the Group's accounting policies, which are described in note 3 to the consolidated financial statements, the directors of the Company are required to make judgements, estimates and assumptions about the carrying amounts of assets and liabilities that are not readily apparent from other sources. The estimates and associated assumptions are based on historical experience and other factors that are considered to be relevant. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an on-going basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision affects only that period, or in the period of the revision and future periods if the revision affects both current and future periods.

Key sources of estimation uncertainty

The following are the key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk of causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year.

(a) Impairment of property, plant and equipment

The Group tests at least annually whether assets that have definite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount.

The estimated recoverable amounts of construction in progress (note 16) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by an independent firm of professional qualified valuers using cost approach and market approach valuation methodology, which involves the cash-generating units that have been determined based on value-in-use calculations.

(b) Escrow monies held in escrow accounts

As disclosed in note 22(c) to the consolidated financial statements, escrow monies of HK$85,000,000 were placed in the escrow accounts of an escrow agent. The Group has instituted legal proceedings for the return of these escrow monies. As referred to in note 34(a) to the consolidated financial statements, based on the legal opinion sought, the directors of the Company are of the view that no impairment loss is required to be recognised on the escrows monies as at 31 December 2017. However, in the event that the litigation was unfavourable and the future cash inflows were less than expected, an impairment loss may arise in the future.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(c) Impairment of loan receivables

The Group has established impairment allowances in respect of estimated incurred losses in loan receivables. In determining individual impairment allowance, management considers objective evidence of impairment. When a loan is impaired, an individual impairment allowance is assessed by a discounted cash flow method, measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the original effective interest rate. The quantum of the allowance is also impacted by the collateral value and this, in turn, may be discounted in certain circumstances to take into account the impact of forced sale or quick liquidation.

In determining collective impairment allowances, management uses estimates based on historical experience for assets with credit risk characteristics and objective evidence of impairment similar to those in the portfolio adjusted for current conditions. The methodology and assumptions used for estimating both the amount and timing of future cash flows are reviewed regularly to reduce any differences between loss estimates and actual loss experience.

(d) Impairment of trade and other receivables

Trade and other receivables are reviewed periodically to assess whether impairment losses exist and if they exist, the amounts of the impairment losses are estimated based on historical loss experience for trade and other receivables with similar credit risks. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between loss estimates and the actual amounts.

(e) Useful life and amortisation of intangible asset – production sharing contract ("PSC")

The PSC is amortised on a straight-line basis over the remaining contract terms of 21.9 years to 31 March 2038. Management determines the estimated useful lives and basis for amortisation for the PSC taking into account factors including but not limited to, contractual terms of respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service of the assets. The estimation of the useful life and the basis for amortisation is a matter of judgement based on the experience of the Group. Management reviews the estimated useful life and the basis for amortisation of intangible asset annually, and if expectations are significantly different from previous estimates of useful economic life, the basis and rates of amortisation for future periods will be adjusted accordingly.

Had a different amortisation rate been used to calculate the amortisation of the PSC, the Group's result of operations and financial position could be materially different.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty ***(Continued)***

(f) Estimate for resources and/or reserves of coalbed methane ("CBM") under the PSC

Reserves are estimates of the amount of CBM that can be economically and legally extracted from the designated contract areas under the PSC (note 17). In order to make an estimate for the reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity demand and commodity prices.

Estimating the quantity and/or grade of reserves requires information on the size, shape and depth of the coalbeds or fields, which has to be determined by analysing geological data such as drilling samples. This process may require complex and difficult geological judgements and calculations to interpret the data.

The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of CBM in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves under the terms of the PSC. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of intangible assets relating to the PSC at 31 December 2017 is shown in note 17 to the consolidated financial statements.

As the economic assumptions used to estimate resources and/or reserves may change from period to period, and because additional geological data is generated during the course of operations, the estimates of reserves may change from period to period. Changes in reported reserves may affect the Group's financial results and financial position in a number of ways, including the following:

– the carrying value of intangible asset relating to the PSC may be affected due to changes in estimated future cash flows;

– depreciation, depletion and amortisation charged in the consolidated statement of profit or loss may change as such charges are determined by reference to the units of production basis or the estimated useful economic lives of the assets;

– provisions for decommissioning site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and

– the carrying value of deferred tax liabilities may change as a result of changes in the asset carrying values as discussed above.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Key sources of estimation uncertainty *(Continued)*

(g) Impairment of intangible asset – PSC

The estimated recoverable amount of the PSC (note 17) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by an independent firm of professional qualified valuers using income approach valuation methodology, which involves the value-in-use calculations with reference to the technical assessment reports issued by Netherland, Sewell & Associates, Inc. and the latest internal reserve assessment. Neither the valuer nor technical adviser is connected with the Group, while both with appropriate qualifications and relevant experience in the industry. The Group has used estimated future cash flows and profit forecasts expected to be generated from the PSC as a cash-generating unit and a risk-adjusted discount rate in order to calculate the present value. The Group's CBM business under the PSC is currently at its early stage of development. The cash flow and profit forecast projections involve significant judgement and estimates on the accuracy of the assumptions for the projections and estimates of, including but not limited to, government policies, the growth rate, the extent of the future market competition, market demand, and cost structure of CBM products that the Group will achieve during the forecast period.

Had different parameters and discount rates been used to determine the estimated recoverable amount of the intangible asset, the Group's results of operations and financial position could be materially different.

(h) Exploration and evaluation expenditures

The application of the Group's accounting policy for the exploration and evaluation expenditure requires judgement to determine whether future economic benefits are likely, from future either exploitation or sale, or whether activities have not reached a stage which permits a reasonable assessment of the existence of reserves. The determination of reserves and resources is itself an estimation process that involves varying degrees of uncertainty depending on how the resources are classified. These estimates directly impact when the Group defers exploration and evaluation expenditure. The deferral policy requires management to make certain estimates and assumptions about future events and circumstances, in particular, whether an economically viable extraction operation can be established. Any such estimates and assumptions may change as new information becomes available. If, after expenditure is capitalised, information becomes available suggesting that the recovery of the expenditure is unlikely, the relevant capitalised amount is written off in the consolidated statement of profit or loss in the period when the new information becomes available.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

Critical accounting judgement in applying the Group's accounting policies

(i) Functional currency

The Company is carrying out its operating activities and making management decisions in Hong Kong, that is, raising finance in Hong Kong dollars and has significant degree of autonomy from its foreign subsidiaries in the way its business is managed. In the opinion of the directors of the Company, the functional currency of the Company is Hong Kong dollars.

(j) Fair value of embedded derivatives portion of convertible notes

The fair value of the embedded derivatives portion of the convertible notes that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible notes based on an independent professional valuation using the binomial lattice model which requires various sources of information and assumptions. The carrying amount of the embedded derivatives portion of the convertible notes as at 31 December 2017 was HK$1,336,000 (2016: HK$105,841,000). Further details are disclosed in note 28 to the consolidated financial statements.

5. CAPITAL MANAGEMENT

The Group's objectives when managing capital are to safeguard the Group's ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders and to maintain an optimal capital structure to reduce the cost of capital.

In order to maintain or adjust the capital structure, the Group may adjust the amount of dividends paid to shareholders, return capital to shareholders, issue new shares or sell assets to reduce debts.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. This ratio is calculated as net debt divided by total capital. Net debt is calculated as total borrowings less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

5. CAPITAL MANAGEMENT *(Continued)*

The gearing ratio at 31 December 2017 and 2016 was as follows:

	2017	2016
	HK$'000	*HK$'000*
Convertible notes	**330,730**	509,031
Bonds	**73,798**	150,976
Other borrowing	**11,814**	11,265
Less: Cash and bank balances	**(34,967)**	(142,515)
Total net debt	**381,375**	528,757
Total equity	**602,227**	701,565
Total capital	**983,602**	1,230,322
Gearing ratio	**38.77%**	42.98%

Neither the Company nor any of its subsidiaries are subject to externally imposed capital requirements.

6. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

	2017	2016
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale financial assets	**1,000**	1,000
Financial assets at fair value through profit or loss	**29,599**	70,085
Loan and other receivables (including cash and bank balances)	**128,378**	237,294
	158,977	308,379
Financial liabilities		
Bonds	**73,798**	150,976
Convertible notes-liability portion, unsecured	**329,394**	403,190
Convertible notes-embedded derivatives, unsecured	**1,336**	105,841
Other financial liabilities	**57,697**	52,899
	462,225	712,906

(2) Financial risk management objectives and policies

The Group's major financial instruments include available-for-sale financial assets, financial assets at fair value through profit or loss, loan receivables, trade receivables, deposits, other receivables, cash and bank balances, other borrowings, bonds, convertible notes, trade payables, other payables and amounts due to non-controlling interests of a subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, other price risk and interest rate risk), credit risk and liquidity risk.

The policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

6. FINANCIAL INSTRUMENTS *(Continued)*

(2) Financial risk management objectives and policies *(Continued)*

(a) Foreign currency risk

The Group is exposed to currency risk primarily through sales and purchases that are denominated in a currency other than the functional currency of the operations to which the transaction relates. The currencies giving rise to this risk are primarily Renminbi ("RMB") and United States dollars ("US$"). RMB is not freely convertible into other currencies. All foreign exchange transactions involving RMB must take place through the People's Bank of China or other institutions authorised to buy and sell foreign exchange. As HK$ is pegged to the US$, the Group does not expect any significant currency risk of US$ position.

Overall, the Group monitors its currency exposure closely and would consider hedging significant currency exposure should the need arise.

(b) Other price risk

The Group is exposed to equity price risk from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period, the Group is exposed to this risk through the conversion rights attached to the convertible notes issued by the Company as disclosed in note 28 to the consolidated financial statements.

In addition, the Group is exposed to equity price risk through its investments in listed equity securities (note 21). The management manages this exposure by maintaining a portfolio of investments with different risks and return profiles. The Group's equity price risk is mainly concentrated on equity instruments operating in securities and brokerage industry sectors quoted in the Stock Exchange.

The Group has not hedged its price risk arising from investments in equity securities. The Group's securities investments that are listed on the Stock Exchange are valued at the quoted market prices at the reporting date.

Sensitivity analysis

The sensitivity analysis below has been determined based on the exposure to equity price risk at the reporting date.

If the prices of the respective equity instruments had been 10% higher/lower (2016: 10% higher/lower):

- post-tax loss for the year ended 31 December 2017 would decrease/increase by approximately HK$2,960,000 (2016: decrease/increase by approximately HK$7,009,000) as a result of the changes in fair value of held-for-trading investments.

6. **FINANCIAL INSTRUMENTS** ***(Continued)***

(2) **Financial risk management objectives and policies** ***(Continued)***

(c) ***Interest rate risk***

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk in relation to the bank balances due to the fluctuation of the prevailing market interest rates for the years ended 31 December 2017 and 2016.

The Group currently does not use any derivative contracts to hedge its exposure to fair value interest rate risk. However, the management will consider hedging significant interest rate exposure should the need arise.

Sensitivity analysis

As at 31 December 2017 and 2016, if the interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, the Group's loss for the year would decrease/increase by approximately HK$349,000 (2016: HK$1,425,000).

(d) ***Credit risk***

As at 31 December 2017, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of each class of recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, management of the Group has delegated a team to compile credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced.

Trade receivables consist of a large number of customers, spread across diverse industries and geographical areas. Ongoing credit evaluation is performed on the financial condition of trade receivables and, where appropriate, credit guarantee insurance cover is purchased.

In respect of loan receivables arising from the Group's money lending business, all of the loan receivables were secured by pledged properties or vehicles. The directors of the Company closely monitor the risk exposure of customers and collateral and would take appropriate action to ensure the risk exposure is acceptable. The directors of the Company are of the view that the expected cash flow of loan receivables is sufficient to cover the carrying amount of loan receivables as at 31 December 2017.

6. FINANCIAL INSTRUMENTS *(Continued)*

(2) Financial risk management objectives and policies *(Continued)*

(d) Credit risk (Continued)

The Group has no significant concentration of credit risk by any single debtor, except for the other receivables in relation to monies in escrow accounts as disclosed in note 22(c) to the consolidated financial statements.

Bank balances and cash in broker accounts are placed in various authorised institutions and the directors of the Company consider the credit risk for such institutions minimal.

(e) Liquidity risk

Liquidity risk is the risk that the Group will not be able to meet its financial obligations as they fall due. The Group's approach to managing liquidity risk is to ensure, as far as possible, that it will always have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses or risk damage to the Group's reputation.

The Group's policy is to regularly monitor current and expected liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

The following table details the remaining contractual maturities at the year end date of the Group's non-derivative financial liabilities and derivative financial liabilities, which are based on contractual undiscounted cash flows (including interest payments computed using contractual rates or, if floating, based on rates current at the date of the reporting period) and the earliest date the Group can be required to pay:

	2017						2016					
	Carrying amount	Weighted average interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount	Weighted average interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	HK$'000	*%*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other borrowings	11,814	-	11,814	11,814	-	-	11,265	–	11,265	11,265	–	–
Trade and other payables	45,883	-	45,883	45,883	-	-	41,634	–	41,634	41,634	–	–
Bonds	73,798	6.1%	83,193	27,413	50,749	5,031	150,976	6.1%	174,051	96,490	27,112	50,449
Convertible notes (including embedded derivatives)	330,730	2.0%	372,300	372,300	-	-	509,031	2.0%	506,480	9,740	496,740	–
	462,225		513,190	457,410	50,749	5,031	712,906		733,430	159,129	523,852	50,449

6. FINANCIAL INSTRUMENTS *(Continued)*

(2) Financial risk management objectives and policies *(Continued)*

(f) Oil and gas price risk

Apart from the financial instruments disclosed above, the Group's activities expose it to market risk relating to oil and gas price risk.

The Group is engaged in a wide range of gas related activities. The global oil and gas market is affected by international political, economic and global demands for and supply of oil and gas. A decrease in the world prices of crude oil and gas could adversely affect the Group's financial position. The Group has not used any derivative instruments to hedge against potential price fluctuations of crude oil and refined products. Management will consider hedging oil and gas exposure should the need arise.

(3) Fair value measurement

(a) 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 presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13 *Fair Value Measurement*.

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
2017			
Financial assets			
– Financial assets at fair value through profit or loss *(note 21)*	29,599	–	–
– Available-for-sale financial assets *(note 19)*	–	–	1,000
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 28)*	–	–	1,336

6. FINANCIAL INSTRUMENTS *(Continued)*

(3) Fair value measurement *(Continued)*

(a) 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*
2016			
Financial assets			
– Financial assets at fair value through profit or loss *(note 21)*	70,085	–	–
– Available-for-sale financial assets *(note 19)*	–	–	1,000
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 28)*	–	–	105,841

During the years ended 31 December 2017 and 2016, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. 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 31 December 2017, the credit spread used in the valuation is 15.66%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the credit spread would have increased/decreased the Group's loss by HK$134,000/HK$134,000 (2016: increase/decrease the Group's loss by HK$9,200,000/HK$9,551,000).

The movements during the year in the balances of the Level 3 fair value measurement for the conversion option embedded in convertible notes are disclosed in note 28 to the 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 year in the profit or loss, fair value gain of HK$92,938,000 (2016: HK$83,295,000) was related to conversion option embedded in convertible notes for the reporting period. The fair value of the available-for-sale financial assets (note 19) was estimated by the directors of the Company with reference to the expected value to be realised.

6. FINANCIAL INSTRUMENTS *(Continued)*

(3) Fair value measurement *(Continued)*

(b) 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 their carrying amounts due to the short-term maturities of these assets and liabilities.

The carrying amounts of loan receivables which carry fixed interest rates approximates their fair value.

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

7. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

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

7. REVENUE AND SEGMENT REPORTING ***(Continued)***

(b) Segment information

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

– Electronic components

– Coalbed methane

– Treasury (i.e. securities trading and money lending)

(i) Segment results, assets and liabilities

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

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

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

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

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

7. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities (Continued)

Year ended 31 December 2017

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

7. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities (Continued)

Year ended 31 December 2016

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

7. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

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

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

7. REVENUE AND SEGMENT REPORTING ***(Continued)***

(b) Segment information ***(Continued)***

(iii) Geographical information

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

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

(iv) Information about major customers

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

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

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

8. OTHER INCOME

	2017	2016
	HK$'000	*HK$'000*
Interest income	**579**	453
Dividend income	**784**	1,296
Reversal of interest accrued *(note)*	**532**	532
Sundry income	**42**	12
	1,937	2,293

Note:

As disclosed in notes 17 and 25 to the consolidated financial statements, the independent third party agreed to waive all accrued interest of approximately HK$6,834,000 (equivalent to RMB6,008,000) due by Canada Can-Elite Energy Limited ("Can-Elite"), a wholly-owned subsidiary of the Company, and China United Coalbed Methane Corporation Limited ("China United") as at 31 December 2008, of which Can-Elite shared approximately HK$4,784,000 (equivalent to RMB4,206,000) based on the PSC. The accrued interest waived is amortised over the contractual period of 9 years during which a discount on sale of CBM products is given to that independent third party.

9. OTHER GAINS AND LOSSES

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

10. FINANCE COSTS

	2017 *HK$'000*	2016 *HK$'000*
Imputed interest on convertible notes	**37,875**	43,817
Imputed interest on bonds	**15,131**	11,143
	53,006	54,960

11. LOSS BEFORE TAX

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

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

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

Directors' and chief executive's emoluments disclosed pursuant to section 383(1) of the Hong Kong Companies Ordinance and Part 2 of the Companies (Disclosure of Information about Benefits of Directors) Regulation are as follows:

2017

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chief executive					
Lyu Guoping	–	1,688	124	18	1,830
Executive directors					
Cheng Wai Keung	–	276	24	14	314
Tam Tak Wah	–	672	54	18	744
Tsang Ching Man	–	932	54	18	1,004
Independent non-executive directors					
Albert Saychuan Cheok *(Chairman)*	480	–	–	–	480
Chan Tsz Kit	100	–	–	–	100
Chan Yim Por Bonnie	100	–	–	–	100
Wang Li	100	–	–	–	100
	780	3,568	256	68	4,672

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

(a) Directors' and chief executive's emoluments *(Continued)*

2016

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chief executive					
Lyu Guoping	–	1,688	124	18	1,830
Executive directors					
Cheng Wai Keung	–	276	27	14	317
Tam Tak Wah	–	672	56	18	746
Tsang Ching Man	–	932	76	18	1,026
Independent non-executive directors					
Albert Saychuan Cheok *(Chairman)*	480	–	–	–	480
Chan Tsz Kit	100	–	–	–	100
Chan Yim Por Bonnie	100	–	–	–	100
Wang Li	100	–	–	–	100
	780	3,568	283	68	4,699

Notes:

(i) None of the directors or chief executive waived any emoluments during the years ended 31 December 2017 and 2016.

(ii) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group during the years ended 31 December 2017 and 2016.

(iii) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company during the years ended 31 December 2017 and 2016.

(iv) The chief executive's emoluments shown above were mainly for his services in connection with the management of the affairs of the Company and the Group during the years ended 31 December 2017 and 2016.

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS *(Continued)*

(b) Directors' retirement benefits

None of the directors received or will receive any retirement benefits during the year (2016: Nil).

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2016: Nil).

(d) Consideration provided to third parties for making available directors' services

During the year ended 31 December 2017, the Company did not pay consideration to any third parties for making available directors' services (2016: Nil).

(e) Information about loans, quasi-loans and other dealings in favour of directors, controlled bodies corporates and connected entities with such directors

During the year ended 31 December 2017, there are no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2016: Nil).

(f) Directors' material interests in transactions, arrangements or contracts

No significant transaction, arrangement and contract in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2016: Nil).

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees of the Group during the year included one director and the chief executive (2016: one director and the chief executive), details of whose emoluments are set out in note 12 above. The emoluments of the remaining three (2016: three) individuals are as follows:

	2017	2016
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**4,387**	4,412
Discretionary bonuses	**137**	187
Retirement scheme contributions	**54**	54
	4,578	4,653

	Number of individuals	
	2017	2016
Emoluments bands		
Nil to HK$1,000,000	**1**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**1**	1
	3	3

There was no arrangement under which any of these individuals waived or agreed to waive any remuneration during the years ended 31 December 2017 and 2016.

14. INCOME TAX

(a) Income tax in the consolidated statement of profit or loss represents:

	2017	2016
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**101**	68
Hong Kong Profits Tax	**49**	–
	150	68
Overprovision in prior years		
Hong Kong Profits Tax	**–**	(2)
Deferred tax		
Current year *(note 14(d))*	**(99,645)**	(113,856)
Income tax credit	**(99,495)**	(113,790)

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

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

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

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

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

14. INCOME TAX *(Continued)*

(b) Income tax credit for the years can be reconciled to the loss before tax per the consolidated statement of profit or loss as follows:

	2017	2016
	HK$'000	*HK$'000*
Loss before tax	**(403,642)**	(498,325)
Notional tax on loss before tax, calculated at the rates applicable in the jurisdictions concerned	**(117,344)**	(140,334)
Tax effect of income not taxable for tax purpose	**(17,083)**	(22,096)
Tax effect of expenses not deductible for tax purpose	**31,600**	44,858
Tax effect of deductible temporary differences not recognised	**(271)**	46
Tax effect of tax losses not recognised	**3,603**	3,738
Overprovision in respect of prior years	**–**	(2)
Income tax credit	**(99,495)**	(113,790)

(c) Current tax on the consolidated statement of financial position:

	2017	2016
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	**2,651**	2,639
Hong Kong Profits Tax	**1,090**	1,041
	3,741	3,680

14. INCOME TAX *(Continued)*

(d) The components of deferred tax liabilities recognised in the consolidated statement of financial position and the movements during the year are as follows:

	Fair value adjustments of financial assets at fair value through profit or loss	Fair value adjustments on PSC arising from the business combination *(note 17)*	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2016	9,404	478,818	488,222
Credit to consolidated statement of profit or loss *(note 14(a))*	(7,954)	(105,902)	(113,856)
Exchange adjustment	–	(29,709)	(29,709)
At 31 December 2016 and 1 January 2017	1,450	343,207	344,657
Credit to consolidated statement of profit or loss *(note 14(a))*	(2,721)	(96,924)	(99,645)
Exchange adjustment	–	25,187	25,187
At 31 December 2017	(1,271)	271,470	270,199

(e) Deferred tax assets not recognised

Deferred tax assets of the Group amounting to HK$16,372,000 (2016: HK$13,536,000), arising from unused tax losses have not been recognised in the consolidated financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

15. LOSS PER SHARE

(a) Basic loss per share

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

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

	2017	2016
Weighted average number of ordinary shares for the purpose of basic loss per share		
Issued ordinary shares at 1 January	**6,387,724,561**	5,700,358,074
Effect of shares issued under rights issue	**1,216,292,759**	–
Effect of exercise of warrants	**15,699**	173,488,235
Weighted average number of ordinary shares in issue during the year	**7,604,033,019**	5,873,846,309
Share consolidation effective on 24 February 2017 *(note 29(a))*	**(3,193,862,281)**	(2,936,923,155)
Effect of bonus element on shares issued under rights issue on 28 March 2017 *(note 29(b))*	**11,742,141**	10,797,512
Weighted average number of ordinary shares at 31 December after the effect of share consolidation and rights issue	**4,421,912,879**	2,947,720,666

(b) Diluted loss per share

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

16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Construction in progress	Plant and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2016	6,426	7,251	107,922	2,143	3,283	828	127,853
Exchange adjustment	(411)	(702)	(7,226)	(55)	(109)	–	(8,503)
Additions	–	13,482	205	209	828	–	14,724
Transfer	–	(8,070)	8,070	–	–	–	–
Written off	–	–	–	(84)	(32)	–	(116)
At 31 December 2016 and 1 January 2017	6,015	11,961	108,971	2,213	3,970	828	133,958
Exchange adjustment	453	1,609	8,244	62	140	–	10,508
Additions	–	18,186	648	118	427	–	19,379
Transfer	–	(1,206)	1,206	–	–	–	–
Transfer to asset classified as held for sale *(note 24)*	(6,468)	–	–	–	–	–	(6,468)
Written off	–	–	–	(123)	–	–	(123)
At 31 December 2017	–	30,550	119,069	2,270	4,537	828	157,254
Accumulated depreciation							
At 1 January 2016	1,660	–	28,618	2,046	1,721	614	34,659
Exchange adjustment	(120)	–	(2,304)	(42)	(40)	–	(2,506)
Charge for the year	315	–	11,344	114	620	201	12,594
Written off	–	–	–	(72)	(32)	–	(104)
At 31 December 2016 and 1 January 2017	1,855	–	37,658	2,046	2,269	815	44,643
Exchange adjustment	147	–	3,282	46	54	–	3,529
Charge for the year	192	–	11,400	139	430	13	12,174
Transfer to asset classified as held for sale *(note 24)*	(2,194)	–	–	–	–	–	(2,194)
Written off	–	–	–	(106)	–	–	(106)
At 31 December 2017	–	–	52,340	2,125	2,753	828	58,046
Carrying amounts							
At 31 December 2017	–	30,550	66,729	145	1,784	–	99,208
At 31 December 2016	4,160	11,961	71,313	167	1,701	13	89,315

The land and buildings are situated in the PRC under medium-term lease. None of property, plant and equipment was pledged as security for borrowings of the Group as at 31 December 2017 and 2016.

17. INTANGIBLE ASSETS

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

17. INTANGIBLE ASSETS *(Continued)*

Notes:

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

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

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

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

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

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

17. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The PSC provides a term of thirty consecutive years commencing 1 April 2008, with a production period of no more than twenty consecutive years commencing on a date determined by the joint management committee which is set up by Can-Elite and China United, pursuant to the PSC, to oversee the operations in the contract area.

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

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

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

The arrangement under the PSC is a joint operation which is accounted for in accordance with the accounting policy as set out in note 3(d) to the consolidated financial statements.

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

		2017 *HK$'000*	2016 *HK$'000*
(i)	**Results for the year**		
	Revenue	**1,418**	2,000
	Administrative expenses	**(26,482)**	(24,791)
	Finance costs	**(37,875)**	(43,817)
	Amortisation of PSC	**(64,663)**	(81,839)
	Impairment loss on PSC	**(323,032)**	(341,771)
	PRC Enterprise Income Tax	**(101)**	(68)
	Reversal of deferred tax liabilities	**96,924**	105,902
(ii)	**Other comprehensive income (expense)**		
	Exchange differences on translation of foreign operations	**66,995**	(82,856)
(iii)	**Assets and liabilities**		
	Intangible assets – PSC	**1,085,886**	1,372,832
	Property, plant and equipment*	**98,653**	84,265
	Other payables	**(23,864)**	(16,818)
	Other borrowing	**(11,814)**	(11,265)
	Tax liabilities	**(30)**	(18)
	Deferred tax liabilities *(note 14(d))*	**(271,470)**	(343,207)

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

17. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

	2017	2016
	HK$'000	*HK$'000*
(iv) Capital commitments *(note 33(a))*		
Contracted but not provided for	**23,179**	4,385

(b) Impairment test on PSC

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

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

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

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

18. INVESTMENTS IN SUBSIDIARIES

The following list contains the particulars of subsidiaries of the Group. The class of shares held is ordinary unless otherwise stated.

		Proportion of ownership interest				
Name of the Company	**Place of incorporation/ operation**	**Group's effective interest**	**Held by the Company**	**Held by a subsidiary**	**Issued and paid up capital**	**Principal activities**
Ace Elect Investments Limited	Hong Kong	100%	–	100%	HK$1	Electronic components trading
Alpha Guidance Limited	Hong Kong	100%	–	100%	HK$1	Electronic components trading
Barraza Company Limited	Hong Kong	100%	100%	–	HK$2	Provision of secretarial services
Canada Can-Elite Energy Limited	Canada/PRC	100%	–	100%	Can$10,000	Coalbed methane gas exploration and development and exploitation
Champ Success International Limited	Hong Kong	80%	–	80%	HK$2	Electronic components trading
Cosmos Guard Limited	British Virgin Islands ('BVI")/ Hong Kong	100%	100%	–	US$1	Securities trading
Ever Double Investments Limited	BVI/Hong Kong	100%	100%	–	US$1	Investment holding
Fortune Spring International Limited	BVI	100%	100%	–	US$1	Investment holding
Giant Front Limited	BVI	100%	–	100%	US$1	Investment holding
Goal Reach Investments Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
International Standard Resources Financial Service Limited	Hong Kong	100%	100%	–	HK$1	Inactive

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

		Proportion of ownership interest				
Name of the Company	Place of incorporation/ operation	Group's effective interest	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activities
International Standard Resources Securities Limited	Hong Kong	100%	–	100%	HK$1	Inactive
Magic Chance Investments Limited	BVI	100%	100%	–	US$1	Securities trading
Merit First Investments Limited	BVI	100%	–	100%	US$1	Investment holding
Nation Rich Investments Limited	BVI	100%	100%	–	US$1	Investment holding
New Smart Credit Service Limited	Hong Kong	100%	100%	–	HK$1	Provision of financing services
New Smart Energy Group Limited	Hong Kong	100%	100%	–	HK$1	Inactive
New Smart Holdings Limited	Hong Kong	100%	100%	–	HK$2	Provision of corporate services
Powerful Sky Investments Limited	BVI	100%	–	100%	US$1	Investment holding
Profit Giant Investments Limited	BVI	100%	100%	–	US$1	Investment holding
Smart Class Investments Limited	Hong Kong	100%	–	100%	HK$1	Investment holding
Strong Way International Limited	Hong Kong	60%	–	60%	HK$5,200,000	Electronic components trading
U-Cyber (Nominees) Limited	Hong Kong	100%	100%	–	HK$2	Inactive
U-Cyber Investment (Nominees) Limited	Hong Kong	100%	100%	–	HK$2	Inactive
Wisedeal Investments Limited	BVI	100%	100%	–	US$1	Investment holding

18. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of the Company	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activities
駿達朝揚(北京)投資管理諮詢有限公司 *(note)*	PRC	100%	–	100%	HK$5,000,000	Property investment
深圳市白雲能源技術有限公司 *(note)*	PRC	100%	–	100%	RMB6,905,777	Provision of technology services for CBM development and utilisation
廣東碩華投資有限公司 *(note)*	PRC	100%	–	100%	RMB30,000,000	Provision of financing services
英發能源煤層氣(安徽)有限公司 *(note)*	PRC	100%	–	100%	HK$2,000,000	Inactive

Note:

These companies are wholly foreign-owned enterprises established in the PRC.

The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2017 and 2016.

19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2017	2016
	HK$'000	*HK$'000*
Club debentures at fair value *(note)*	**1,000**	1,000

Note:

The fair value of the available-for-sale financial assets was estimated by the directors of the Company with reference to the expected value to be realised.

20. LOAN RECEIVABLES

	2017	2016
	HK$'000	*HK$'000*
Treasury business:		
– Secured short-term loans	**5,510**	4,129

As at 31 December 2017, secured short-term loans represented short-term loans advanced to independent third party borrowers with collateral over their properties or vehicles, bearing interest ranging from 0.83% to 2.55% per month and are subject to demand repayment clause.

21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2017	2016
	HK$'000	*HK$'000*
Held for trading investments:		
Listed investment in Hong Kong at fair value *(note)*	**29,599**	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.

22. TRADE AND OTHER RECEIVABLES

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

22. 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:

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

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

(b) Allowance for doubtful debts

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

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

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

At 31 December 2017, the Group's trade receivables of HK$14,562,000 (2016: HK$13,516,000) were individually determined to be impaired. The individually impaired receivables were 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.

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Included in other receivables of the Group were aggregate sums of HK$85,000,000 (2016: HK$85,000,000) which were escrow monies placed at the escrow accounts of a firm of solicitors which acted as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to in note 34(a) to the 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 of succeeding in its claim to recover the escrow monies in full and the change of estimated time to recover the escrow sum is expected to be longer than 12 months after the end of the reporting period due to the prolonged legal procedures (particularly taking into consideration the recent re-amended pleadings for statement of claims, discovery process and increased complication in the procedures including the introduction of expert witness). Taking into account the change of estimated time of recovering this amount and without taking mediation actions, the Group has reclassified the escrow sums to non-current asset, which was presented as a current asset under trade and other receivables as at 31 December 2016. As the timing of recovering this escrow monies is expected to be more than 12 months, the Group has assessed the estimated cash inflow of the escrow monies by using the effective interest method after considering the change of estimated time of recovery and expected interest claimed. The directors of the Company are of the opinion, based on the legal advice sought and assessment of estimated cash inflow of the escrow monies, no impairment loss is required as at 31 December 2017.

23. CASH AND BANK BALANCES

	2017	2016
	HK$'000	*HK$'000*
Cash at banks and on hand	**34,967**	142,515
Less: Pledged bank deposits	**(180)**	(180)
Cash and cash equivalents in the consolidated statement of cash flows	**34,787**	142,335

Bank balances carry interest ranging from 0.01% to 1.95% (2016: from 0.01% to 3.30%) per annum. Short-term bank deposits amounting to HK$180,000 (2016: HK$180,000) carry fixed interest rate of 0.1625% (2016: 0.1625%) per annum and are pledged to a bank to secure banking facilities granted to the Group.

24. ASSET CLASSIFIED AS HELD FOR SALE

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

On 13 July 2017 and 8 February 2018, the Group announced that Jun Da Zhao Yang (Beijing) Investment Management & Consulting Company Limited* (駿達朝揚(北京)投資管理諮詢有限公司), a company incorporated in the PRC with limited liability, which is a wholly-owned subsidiary of the Company, entered into a property sale and purchase agreement with an independent third party to dispose of the property located at Unit 1908, Level 17, Block 5-2, No. 5 Chongwenmen Outer Street, Dongcheng District, Beijing, PRC* (中國北京市東城區崇文門外大街5號5-2幢17層1908室) with a gross floor area of approximately 273.71 square metres (the "Property"). The Property was occupied for self-use by the Group (classified as property, plant and equipment).

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

* for identification purpose only

25. OTHER BORROWING, UNSECURED

Other borrowing, relating to the CBM business under the PSC (note 17) and payable to an independent third party, is unsecured, interest free and with no fixed repayment terms. The movements in other borrowing during the year are as follows:

	2017	2016
	HK$'000	*HK$'000*
At 1 January	**11,265**	12,908
Repayment for other borrowing	**(288)**	(855)
Exchange adjustment	**837**	(788)
At 31 December	**11,814**	11,265

26. TRADE AND OTHER PAYABLES

	2017	2016
	HK$'000	*HK$'000*
Trade payables *(note)*	2,053	1,732
Other payables	28,093	24,265
Deposits received	2,162	–
Amounts due to non-controlling interests of a subsidiary *(note 35)*	15,737	15,637
Accrued expenses	8,342	9,780
	56,387	51,414

Note:

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

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

27. BONDS

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

Notes:

(a) In December 2014, Bond I with an aggregate principal amount of HK$10,000,000 was issued to a subscriber through a placing agent, and 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 a subscriber through a placing agent, and 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 mature and be redeemed by the Company on the third anniversary of the date of issue correspondingly. During the year, an aggregate principal amount of HK$87,000,000 were repaid. At 31 December 2017, Bond I with an aggregate principal amount of HK$24,000,000 remained outstanding.

27. BONDS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

Imputed interest expenses on Bond I were calculated using effective interest method with an 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 a subscriber through the placing agent with interest rate of 7% per annum payable annually.

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

Imputed interest expenses on Bond II were calculated using effective interest method with an 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 was issued to individual subscribers with interest rate of 7% per annum payable semi-annually.

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

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

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

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

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

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

28. CONVERTIBLE NOTES, UNSECURED

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

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

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

The conversion price of the Existing Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issue under open offer and bonus issue of warrants. Furthermore, the conversion price of the Existing Convertible Notes was adjusted to HK$0.20 from the close of business on 23 February 2017 and to HK$0.17 on 4 March 2017 upon completion of the share consolidation and the rights issue as detailed in note 29 to the consolidated financial statements respectively.

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

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

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

28. CONVERTIBLE NOTES, UNSECURED *(Continued)*

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

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

Existing Convertible Notes due on 31 December 2018

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

28. CONVERTIBLE NOTES, UNSECURED *(Continued)*

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

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

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

29. SHARE CAPITAL

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

29. SHARE CAPITAL *(Continued)*

Notes:

(a) Share consolidation

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

(b) Issue of new shares under rights issue

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

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

30. WARRANTS

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

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

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

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

31. SHARE OPTION SCHEME

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

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

At the annual general meeting of the Company held on 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 an amount equivalent to 10% of the 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 two years ended 31 December 2017 and 2016. There were no share options outstanding as at 31 December 2017 and 2016.

32. EMPLOYEE RETIREMENT BENEFITS

The Group operates a mandatory provident fund scheme ("the MPF Scheme") under the Hong Kong Mandatory Provident Fund Schemes Ordinance for employees employed under the jurisdiction of the Hong Kong Employment Ordinance. The MPF Scheme is a defined contribution retirement plan administered by independent trustees. Under the MPF Scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000. Contributions to the plan vest immediately. The Group has no other material obligations for the payment of pension benefits associated with the MPF Scheme beyond the annual contributions described above.

Pursuant to the relevant labour rules and regulations in the PRC, the Group participates in a defined contribution retirement scheme organised by the local government, whereby the Group is required to make contributions to the pension fund scheme at a certain percentage of the employees' relevant basic salaries. Contributions to the scheme vest immediately.

The Group's contributions to employee retirement benefits for the year ended 31 December 2017 were HK$2,092,000 (2016: HK$1,861,000). As at 31 December 2017, there was no material outstanding contribution to employee retirement benefits.

33. COMMITMENTS

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

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

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

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

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

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

34. 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.

35. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation

	2017	2016
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**6,909**	6,509
Discretionary bonuses	**256**	282
Retirement scheme contributions	**97**	86
	7,262	6,877

Total remuneration is included in "staff costs" (see note 11).

	2017	2016
	HK$'000	*HK$'000*
Amount due to non-controlling interests of a subsidiary *(note 26)*	**15,737**	15,637

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

36. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2017	2016
	HK$'000	*HK$'000*
Non-current assets		
Property, plant and equipment	**27**	85
Interest in subsidiaries, net	**846,585**	1,008,794
Other receivables	**35,000**	–
Available-for-sale financial assets	**1,000**	1,000
	882,612	1,009,879
Current assets		
Amounts due from subsidiaries, net	**146,372**	178,541
Other receivables	**310**	35,876
Cash and bank balances	**17,439**	100,685
	164,121	315,102
Current liabilities		
Bonds	**23,919**	83,897
Convertible notes-liability portion, unsecured	**329,394**	–
Convertible notes-embedded derivatives, unsecured	**1,336**	–
Other payables	**1,429**	5,069
	356,078	88,966
Net current (liabilities) assets	**(191,957)**	226,136
Total assets less current liabilities	**690,655**	1,236,015
Non-current liabilities		
Bonds	**49,879**	67,079
Convertible notes-liability portion, unsecured	**–**	403,190
Convertible notes-embedded derivatives, unsecured	**–**	105,841
	49,879	576,110
Net assets	**640,776**	659,905
Capital and reserves		
Share capital	**2,032,227**	1,894,252
Reserves *(note)*	**(1,391,451)**	(1,234,347)
Total equity	**640,776**	659,905

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 March 2018 and are signed on its behalf by:

Ms. Tsang Ching Man	**Mr. Tam Tak Wah**
DIRECTOR	*DIRECTOR*

36. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION *(Continued)*

Note:

Details of the changes in the Company's individual components of reserves between the beginning and the end of the year are set out below:

	Special capital reserve	**Accumulated losses**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
	(note 37(a))		
At 1 January 2016	579,799	(1,352,023)	(772,224)
Loss and total comprehensive expenses for the year	–	(462,123)	(462,123)
At 31 December 2016 and 1 January 2017	579,799	(1,814,146)	(1,234,347)
Loss and total comprehensive expenses for the year	–	(157,104)	(157,104)
At 31 December 2017	579,799	(1,971,250)	(1,391,451)

Pursuant to the reductions in capital of the Company in 2003 ("2003 Capital Reduction"), 2009 ("2009 Capital Reduction") and 2012 ("2012 Capital Reduction"), the Company has undertaken that in the event of its making any future recoveries in respect of the provisions against certain specific subsidiaries as at 31 December 2002, 2008 and 2011, respectively, all such recoveries up to maximum amounts of HK$367,938,000 in relation to 2003 Capital Reduction, HK$130,663,000 in relation to 2009 Capital Reduction and HK$171,025,000 in relation to 2012 Capital Reduction, will be credited to a special capital reserve of the Company, which shall not be treated as realised profits for the purpose of section 79B of the predecessor Hong Kong Companies Ordinance (Cap.32) and shall be treated as an un-distributable reserve of the Company for the purpose of section 79C of the predecessor Hong Kong Companies Ordinance (Cap.32).

No credit transfer to this special capital reserve was made by the Company in 2017 and 2016.

37. RESERVES

(a) Special capital reserve

Pursuant to 2009 Capital Reduction and 2012 Capital Reduction, the amounts of HK$492,172,000 and HK$87,627,000 by which the capital reductions exceed the total accumulated losses of permanent nature of the Company as at 31 December 2008 and 31 December 2011, have been credited to a special capital reserve of the Company which shall not be treated as realised profits for the purpose of section 79B of the predecessor Hong Kong Companies Ordinance (Cap. 32) and shall be treated as an un-distributable reserve of the Company for the purpose of section 79C of the predecessor Hong Kong Companies Ordinance (Cap. 32).

(b) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign subsidiaries and foreign operations. The reserve is dealt with in accordance with the accounting policies in note 3(h) to the consolidated financial statements.

(c) Distributable reserves

As at 31 December 2017, the aggregate amount of reserves available for distribution to owners of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap.622), with reference to section 79B of the predecessor Hong Kong Companies Ordinance (Cap. 32) was Nil (2016: Nil).

38. EVENTS AFTER THE REPORTING PERIOD

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

FINANCIAL SUMMARY

Results	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**16,669**	23,518	58,229	130,628	97,857
Loss before tax	**(403,642)**	(498,325)	(545,727)	(223,185)	(453,906)
Income tax	**99,495**	113,790	121,270	26,085	100,120
Loss for the year	**(304,147)**	(384,535)	(424,457)	(197,100)	(353,786)
Other comprehensive income (expenses) for the year	**66,834**	(82,841)	(89,845)	(10,083)	65,938
Total comprehensive expenses for the year	**(237,313)**	(467,376)	(514,302)	(207,183)	(287,848)
Loss for the year attributed to:					
Owners of the Company	**(303,913)**	(384,448)	(423,744)	(196,428)	(353,176)
Non-controlling interests	**(234)**	(87)	(713)	(672)	(610)
	(304,147)	(384,535)	(424,457)	(197,100)	(353,786)

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**1,348,896**	1,772,588	2,331,655	2,885,729	2,922,046
Total liabilities	**(746,669)**	(1,071,023)	(1,225,264)	(1,544,305)	(1,412,503)
Total equity	**602,227**	701,565	1,106,391	1,341,424	1,509,543
Non-controlling interests	**4,195**	3,961	3,874	3,161	2,489
Equity attributable to owners of the Company	**606,422**	705,526	1,110,265	1,344,585	1,512,032