INTERNATIONAL STANDARD RESOURCES
標準資源

# INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

Annual Report 2015

# **CORPORATE** INFORMATION

## DIRECTORS

### Executive Directors

Cheng Wai Keung
Tam Tak Wah
Tsang Ching Man

### Independent Non-Executive Directors

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

## CHIEF EXECUTIVE OFFICER

Lyu Guoping

## AUTHORISED REPRESENTATIVES

Tam Tak Wah
Tsang Ching Man

## COMPANY SECRETARY

Tsang Ching Man

## AUDIT COMMITTEE

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

## NOMINATION COMMITTEE

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

## REMUNERATION COMMITTEE

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

## PRINCIPAL BANKERS

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

## LEGAL ADVISORS

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

## AUDITOR

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

## REGISTERED OFFICE

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

## SHARE REGISTRARS

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

## LISTING EXCHANGE

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

## COMPANY WEBSITE

www.intl-standardresources.com

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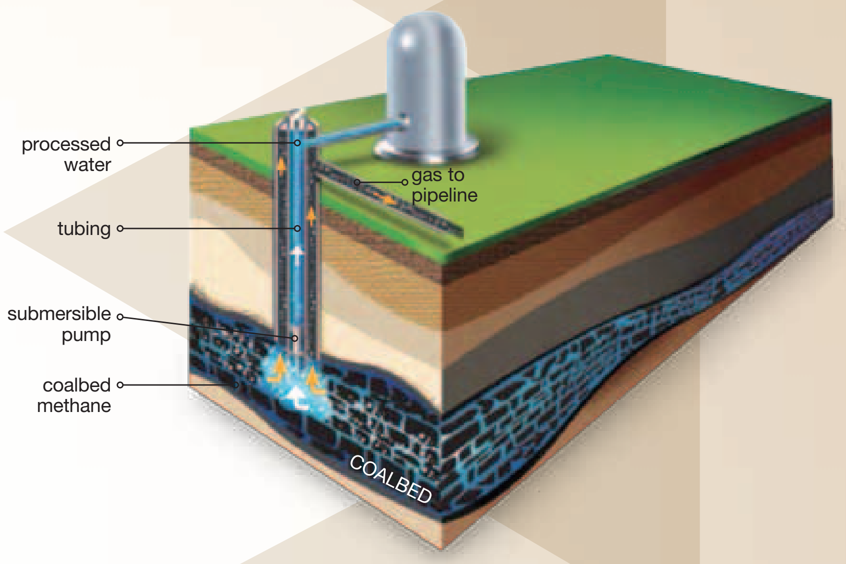
# CHAIRMAN'S STATEMENT

# CHAIRMAN'S STATEMENT

**Dear Shareholders,**

**On behalf of the Board of Directors (the "Board") 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 2015.**




## BUSINESS REVIEW

During the year ended 31 December 2015, 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 94.97% 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 km$^2$. As at the end of the year of 2015, the CBM operation was still in exploration stage, a total of 30 exploration wells were drilled and 7 of which have been put into production, as such there were only marginal contributions to the Group from the CBM business for the year. Total revenue generated from CBM business was HK$1,951,000 compared to last year's HK$2,570,000, a loss of HK$547,205,000 (2014: HK$212,317,000) was recorded mainly due to the amortisation of PSC of HK$104,738,000 (2014: HK$107,154,000), the imputed interest on convertible notes of HK$57,529,000 (2014: HK$85,158,000), and the impairment loss on PSC of HK$419,819,000 (2014: Nil) which was resulted from the significant price decrease of the domestic natural gas, being one of the key factors in determining the recoverable amount of the PSC, in 2015.

# CHAIRMAN'S STATEMENT

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

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

During the year, the Group tried a new design of drilling method and a pair of U-shaped horizontal wells were drilled at Area A, the drilling is expected to be completed in April 2016. After that, various work including exploration development plan, feasibility studies, work site design and getting project approvals will be carried out. The 9 newly installed exploration wells at Area B of Su'nan Block have finished fracturing operation and started the process of drainage and collection, out of which, 8 wells yielded gas successfully. Meanwhile, the drilling of one parametric well was finished as part of the preparation for the reserve reports for the areas where the 9 wells located. When exploration and collection of gas reaches requirement, new proven reserves can be obtained for an area of 30 to 50 $km^2$ at Su'nan Block, the report on newly increased proven reserves is expected to be compiled and submitted to the relevant bureau in 2016. Furthermore, the 2D seismic survey carried out across an area of 110 $km^2$ deep down at Su'nan Block was completed and the report of which was obtained. Based on the report, Can-Elite planned to embark on deep drilling of the parametric well. The drilling work is expected to be done in June 2016 once site selection and drilling team tender for the first well in the deep down area is completed.

Board members and senior management of the Group had made several visits to cooperating partners, relevant authorities of the Central Government as well as governments of Anhui Province and Suzhou City, and has site visits with officers from these organisations during the year. On 31 July 2015, the Group, through Can-Elite, entered into the Strategic Cooperation Framework Agreement on Su'nan Coalbed Gas Integrated Development Project with Suzhou Municipal People's Government ("**Suzhou Municipal Government**"). According to the agreement, Suzhou Municipal Government will enhance its support to the

Group in developing the CBM project by setting up a special coordination division with a view to include the project in energy development plans of the state and province; and will provide support in construction and environmental related area so as to improve the operating environment of the Group. The Group also entered into the Investment Cooperation Agreement on Coalbed Gas Development and Utilisation Project with Suzhou Municipal Development and Reform Commission ("**Suzhou DRC**"). Suzhou DRC has agreed to support the Group to construct a primary and numbers of ancillary gas filling stations in Suzhou. According to the agreement, Suzhou DRC will assist the Group on choosing location of construction sites and acquiring licenses for processing coalbed gas. In January 2016, the Group, through its wholly-owned subsidiary, incorporated Can-Elite Coalbed Gas (Anhui) Co at the Economic Development District of Suzhou to expedite the implementation of the two agreements and fully utilised the gas produced by supplying gas for vehicle and industrial use in one stop, i.e. collect gas from the wells, compress, canning and transport to the customers. Initial agreement of cooperation intention was reached with the target customers.

### Electronic Components Business

The global economy has been fluctuating over the past year. The weak global demand dragged on the consumables market. As a result, revenue generated from electronic component segment dropped significantly to HK$55,299,000, representing a decrease of 56.77% compared to the year 2014. The Group will regularly review the range of products distributed to cope with the increasingly difficult business environment so as to generate stable revenue and return. However, it shall be expected that the situation will not be improved in the short run.

### Treasury Business

The treasury business includes securities trading and money lending businesses.

The Group adopts a prudent approach to manage all its investments for short to medium term profit. The investment market had rebounded during the first half of the year. Taking the advantage of the booming stock markets, the Group had invested surplus funds in certain securities listed in Hong Kong.

During the year, the management performed regular review on the investment portfolio and monitored the stock market closely so as to seize opportunities of realising investment gains. Thus, the Group managed to record a profit of HK$50,597,000 (2014: HK$15,393,000) due to the gain on disposal and net gain on revaluation of financial assets at fair value through profit or loss. As at 31 December 2015, the Group held an investment portfolio with market value of approximately HK$85,373,000 (2014: HK$38,592,000).

# CHAIRMAN'S STATEMENT

The Group carries its money lending business by providing both secured and unsecured loans to corporations and individuals. Strict internal policies and on-going loan reviews are applied to ensure manageable business risk. Moreover, to meet the statutory requirements and to cope with the complexity of business environment, regular review and updates of internal policy are performed. In February 2015, the Hong Kong Monetary Authority introduced the new countercyclical measures for property mortgage loans (i.e. to lower the maximum loan-to-value ratio by 10 percentage points), the demand for second mortgage thus increased, and benefited the Group's money lending business. Revenue generated from the business (i.e. interest income) increased from last year's HK$140,000 to approximately HK$979,000.

## PROSPECTS

CBM is a quality, clean and efficient natural gas resource stored in coal seams. With the exploitation and utilisation plan of CBM become crystallised, it has strengthened the prevention on coal mine accidents and reduced air pollution. It also helped alleviate the problem of energy shortage and secured the provision of clean energy, as such the government has been paying more attention to CBM businesses. With the continuous support from government policies and favourable market environment, the ceaseless technology breakthroughs, approved new reserves and perfection in various complementary conditions, the CBM specialists embrace an 'Uprising Period' and 'Golden Decade' in CBM industry in the PRC.

On 5 March 2016, Premier of the PRC Li Keqiang in the "Report on the Work of the Government" reiterated the need to vigorously curb the haze problem, promote the use of electricity and gas in place of coal; increase the supply of natural gas and heighten the proportion of clean energy. Meanwhile, the "CBM Exploration and Development Action Plan" recently issued by the National Energy Administration of the PRC points out that, by 2020, (i) the proven geological reserve of CBM in the PRC to be increased by one trillion cubic meters; (ii) the drainage and collection capacity for CBM (coal gas) to reach 40 billion cubic meters, with almost full utilisation of 20 billion cubic meters from aboveground reserve and an utilisation rate of over 60% for 20 billion cubic meters from coal gas drainage; and (iii) 3 to 4 industry bases for CBM industry to be constructed, and in key coal mining areas, coal mining and gas production to be conducted simultaneously.

The restructuring of energy structure of the PRC calls for further increase in production and supply of natural gas. According to the "Overview of the Development of Gas Industry at Home and Abroad in 2015 and Prospect for 2016" published by the Research Institute of Petroleum Exploration and Development (RIPED), it is expected that the demand of the PRC for natural gas would exceed 200 billion cubic meters by 2016, and the external dependency will also climb to 33.7%. The percentage proportion of natural gas consumption in the PRC to one-off total energy consumption will reach 5.9% in 2015, however it is still much lower than the international average level of around 23%.

Moreover, gas price in the PRC was adjusted twice, in April and November 2015 respectively; the adjustments enabled gas price to be driven by market demand, and should be able to alter the situation in which the pricing of natural gas is historically lower than other forms of energy. Besides, in February 2016, the Ministry of Finance of the PRC promulgated the "Notice regarding the Subsidy Standard for Development and Utilisation of Coalbed Methane (Gas) during the course of the 'Thirteenth Five-Year Plan'", pursuant to which the subsidy for CBM is raised from the original RMB0.2/$m^3$ to RMB0.3/$m^3$. This measure has signified the PRC government's stance to encourage the development and utilisation of CBM, and will fuel the development of exploration and extraction of CBM in the PRC. The Group's CBM contract area in Anhui exhibits prominent market advantages because of the strong demand for natural gas in Eastern PRC and coastal regions. Thus, the development of CBM resources in the contract area not only can satisfy increasing market demand of natural gas but also will bring sustainable and steady returns to the Group.

In 2016, the Group will continue to focus on further collaboration with China United on the exploration and development of the CBM concession, for better progress and breakthroughs to prepare for the development of Area A. Choosing the best option of technical plans upon the result of the U-shaped experimental well; preparing development proposal and commencing trial sale of gas from exploration wells; and keeping up on the maintenance and safety measures for all production works within the collaborative blocks. In order to enhance the exploration at Area B, focus will be on drilling in certain areas to obtain additional proven reserves, as well as investigating the geological conditions and potential resources for the whole block. To this end, the 10 completed exploration wells and the parametric well will be drawn on to prepare reserve reports; and drilling in other zones (including the deeper zones) will be unfolded progressively. The effective coal area of Area B will be larger than 200 $km^2$, representing approximately more than 9 times of the areas with proven reserves of Area A. The geological conditions of the 2 areas are primarily similar, and information gathered from drilling work conducted has betokened a promising prospect for Area B in terms of natural gas resources.

In the coming years, the Group will continue to maintain good execution of the cooperative contract, timely seize market opportunities by gradually migrating from exploration to commercial production, with an aim to have stable production and better returns to the Group.

Meanwhile, Can-Elite and Shenzhen Clouds Energy Technology Limited, another wholly-owned subsidiary of the Group, will further strengthen their industry advantages, carry out technological promotion and collaborative applications, with an aim to deliver quality innovation services while adapting to reforms and developments in domains such as finance and energy in the PRC.

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, 23 March 2016

# MANAGEMENT DISCUSSION AND ANALYSIS

## FINANCIAL REVIEW

The Group's revenue for the year was HK$58,229,000 (2014: HK$130,628,000), representing a substantial decrease of 55.42%. Such decrease of revenue was mainly due to the significant decrease of contribution from the electronic components business which resulted from the slowdown of retail market as a whole since late 2014. The revenue generated by the sale of electronic components decreased by 56.77% from HK$127,918,000 in 2014 to HK$55,299,000 in 2015, representing 94.97% of the Group's revenue. The CBM exploration and exploitation operating subsidiary and the treasury segment contributed HK$1,951,000 (2014: HK$2,570,000) and HK$979,000 (2014: HK$140,000) to the Group in 2015, representing 3.35% and 1.68% of the Group's revenue respectively. The Group's gross profit decreased by 20.79% to HK$3,417,000 from HK$4,314,000 in 2014.

The Group's loss for the year was HK$424,457,000 (2014: HK$197,100,000). 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$419,819,000 (2014: Nil), gain on redemption of convertible notes amounted to HK$18,205,000 (2014: Nil), fair value gain on convertible notes' embedded derivatives amounted to HK$19,472,000 (2014: loss of HK$8,929,000), gain on restructuring of convertible notes amounted to HK$19,705,000 (2014: Nil), imputed interest on convertible notes amounted to HK$57,529,000 (2014: HK$85,158,000), imputed interest on bonds amounted to HK$9,925,000 (2014: HK$265,000), amortisation of the PSC amounted to HK$104,738,000 (2014: HK$107,154,000), net gain on revaluation of financial assets at fair value through profit or loss amounted to HK$42,884,000 (2014: HK$10,907,000), net foreign exchange loss of HK$3,271,000 (2014: HK$1,434,000), allowance for doubtful debts amounted to HK$10,765,000 (2014: Nil), depreciation on property, plant and equipment amounted to HK$12,399,000 (2014: HK$4,011,000) and the deferred tax credit amounted to HK$121,735,000 (2014: HK$26,788,000). The aggregate net result of the abovementioned accounting loss for 2015 is HK$396,445,000 (2014: HK$169,256,000). 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 2015 and 2014, if excluding those accounting profit and loss, was HK$28,012,000 and HK$27,844,000 respectively.

The Group recorded a loss attributable to owners of the Company of approximately HK$423,744,000 (2014: HK$196,428,000), and basic and diluted loss per share was approximately HK8.98 cents (2014: HK5.00 cents). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2015.

## LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2015, the Group had current assets of HK$322,187,000 (2014: HK$249,027,000) and current liabilities of HK$62,950,000 (2014: HK$823,589,000) and cash and bank balances of HK$124,920,000 (2014: HK$109,932,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 511.81% (2014: 30.24%). The restructuring of the convertible notes falling due on 31 December 2015 proposed and completed in early 2015 improved current ratio as at 31 December 2015.

# MANAGEMENT DISCUSSION AND ANALYSIS

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 33.69% (2014: 35.64%). 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 2015, convertible notes with principal amount of HK$40,000,000, which were carried with embedded derivatives portion of HK$8,523,000 and liability portion of HK$35,524,000, were converted into 333,333,333 new shares of the Company at a conversion price of HK$0.12 per share.

The Company further issued three-year bonds with an aggregate principal amount of HK$24,000,000 with interest rate of 6% per annum in January and February 2015. The net proceeds are intended to be used for the development of CBM business carried out in the contract area; and/or repayment of the whole or part of the convertible notes issued by the Company; and/or the general working capital of the Group as well as future business development. As at 31 December 2015, three-year bonds with an aggregate principal amount of HK$111,000,000 with interest rate of 6% per annum and five-year bonds with an aggregate principal amount of HK$1,000,000 with interest rate of 7% per annum remained outstanding.

In October 2015, the Company successfully raised net proceeds of approximately HK$181,000,000 by issuing 1,138,585,309 new ordinary shares on the basis of one offer share for every four shares held at a subscription price of HK$0.168 per offer share under an open offer. Net proceeds of HK$133,000,000 were used for the redemption of convertible notes with principal amount of HK$135,000,000. A discount of HK$2,000,000 is provided by the convertible noteholder.

During the year up to 26 November 2015, being the date of expiry of the bonus warrants issued in November 2014, 151,922,120 new ordinary shares were issued upon the exercise of 151,922,120 units of bonus warrants. Net proceeds of approximately HK$53,164,000 were raised for the general working capital of the Group, repayment of part of the convertible notes and potential investments to be identified.

On 1 December 2015, a total of 1,138,635,658 new bonus warrants were issued by the Company on the basis of one warrant for every five shares held on 18 November 2015, 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 1,138,635,658 new shares at an initial subscription price of HK$0.091 per share at any time during the period commencing from 1 December 2015 to 30 November 2016 (both dates inclusive). If all new bonus warrants are exercised, net proceeds of approximately HK$103,615,000 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. For the year ended 31 December 2015, 7,099,323 new ordinary shares were issued upon the exercise of 7,099,323 units of new bonus warrants and net proceeds of approximately HK$646,000 were raised upon the exercise of the new bonus warrants.

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 32 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 33 to the consolidated financial statements, the Group had no other contingencies as at 31 December 2015.

## LITIGATIONS

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.

In May 2015, the Group, through a subsidiary, advanced a loan of HK$4,000,000 (the "**Loan**") to a borrower. The Loan was secured by a deed of mortgage whereby a property was mortgaged/charged to secure repayment of the Loan. The principal of the Loan became due and payable on 8 November 2015, the borrower, in breach of the loan agreement, has failed to repay the principal of the Loan or any part thereof. In January 2016, the Group, through its solicitors, took out a writ of summons against the borrower claiming for, among other things, the unpaid principal and interest of the Loan and order of possession of the mortgaged/charged property.

The Directors are of the opinion, based on the legal advice sought, that the Escrow Sum and the Loan 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.

# MANAGEMENT DISCUSSION AND ANALYSIS

## 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 for the year ended 31 December 2015.

## BONUS WARRANTS IN 2014

On 27 November 2014, the Company issued a total of 542,543,940 bonus warrants on the basis of two warrants for every fifteen shares of the Company held by the shareholders on 19 November 2014. The holders of these bonus warrants are entitled to subscribe in cash at any time during the period commencing from 27 November 2014 to 26 November 2015 (both dates inclusive) for 542,543,940 new shares at an initial subscription price of HK$0.35 per share (subject to adjustment). During the year, net proceeds of approximately HK$53,164,000 were raised for general working capital of the Group. According to the terms of the bonus warrants, on 26 November 2015, the subscription rights attached to the bonus warrants were expired and ceased to be valid for any purpose thereon.

## RESTRUCTURING OF CONVERTIBLE NOTES DUE 2015 AND ISSUE OF NEW CONVERTIBLE NOTES DUE 2018

On 5 February 2015, 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 convertible notes due 31 December 2015 (the "**Convertible Notes Restructuring Agreement**"). Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 12 March 2015, the special mandate for the issue of the new convertible notes with principal amount of HK$637,000,000 and bearing interest at 2% per annum due 2018 upon completion of the Convertible Notes Restructuring Agreement and issue and allot of the conversion shares was approved. All the conditions precedent under the Convertible Notes Restructuring Agreement were fulfilled and the completion took place on 20 March 2015.

## OPEN OFFER

In October 2015, the Company issued 1,138,585,309 new ordinary shares at a subscription price of HK$0.168 per offer share on the basis of one offer share for every four shares held on 16 September 2015 to finance for the repayment of debts and as the general working capital of the Group. Net proceeds of approximately HK$181,000,000 were raised and were primarily used for the partial repayment of convertible notes and as general working capital of the Group.

## BONUS WARRANTS IN 2015

On 1 December 2015, the Company issued a total of 1,138,635,658 new bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on 18 November 2015. The holders of these new bonus warrants are entitled to subscribe in cash at any time during the period commencing from 1 December 2015 to 30 November 2016 (both dates inclusive) for 1,138,635,658 new shares at an initial subscription price of HK$0.091 per share (subject to adjustment). As at 31 December 2015, 1,131,536,335 units of these new bonus warrants remained outstanding.

Subsequent to 31 December 2015 and up to the approval date of these consolidated financial statements, 33,297,666 new ordinary shares were issued upon the exercise of 33,297,666 units of the new bonus warrants and net proceeds of approximately HK$3,030,000 were raised for the general working capital of the Group.

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 37 to the consolidated financial statements, the Group had no other material event after the reporting period.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group had 72 employees, of which 19 were in Hong Kong and 53 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, mandatory provident fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in the PRC.

## MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2015.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## EXECUTIVE DIRECTORS

**Cheng Wai Keung**, aged 50, 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 is currently 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.

**Tam Tak Wah**, aged 50, 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 executive director of Skyway Securities Group Limited, an independent non-executive director of Tech Pro Technology Development Limited and Central Wealth Financial Group Limited and is a non-executive director of Kingbo Strike Limited, all of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited. He was an independent non-executive director of Siberian Mining Group Company Limited, a company listed on the main board of The Stock Exchange of Hong Kong Limited during the period from 11 June 2007 to 18 February 2014 and Goldenway, Inc, a company the common stock of which were traded in the OTCQB of the USA during the period from 30 September 2011 to 16 August 2013.

**Tsang Ching Man**, aged 35, 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 39, 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 10 years of working experience in public accounting and over 5 years of experience in providing professional services to listed companies in the United States. Mr. Chan was a partner in a CPA firm Albert Wong & Co from 2007 to 2010. Now he is the chief financial officer of a company listed on the NASDAQ Exchange in the United States.

# **BIOGRAPHICAL DETAILS** OF DIRECTORS AND SENIOR MANAGEMENT

**Chan Yim Por Bonnie**, aged 49, 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 a senior partner 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 65, 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 30 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 the Chairman and an independent non-executive director of AcrossAsia Limited and an independent non-executive director of Hongkong Chinese Limited and China Aircraft Leasing Group Holdings Limited, all of which are listed on The Stock Exchange of Hong Kong Limited. He is the independent non-executive Chairman of Auric Pacific Group Limited and Amplefield Limited, both of which are listed on Singapore Exchange Securities Trading Limited ("**SGX**"). He is also the Chairman of Bowsprit Capital Corporation Limited, the manager of First Real Estate Investment Trust which is a healthcare real estate investment trust listed on the SGX and the Chairman of Lippo Malls Indonesia Retail Trust ("**LMIRT**") Management Limited, the manager of LMIRT which is a real estate investment trust listed on the SGX. Mr Cheok is an independent non-executive director of Adavale Resources Limited, a coal exploration company listed on the Australian Securities Exchange. He was formerly the independent non-executive chairman of Creative Master Bermuda Limited, which was listed on the SGX, from May to September 2011, 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 33, 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.

# BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

## SENIOR MANAGEMENT

**Lyu Guoping**, aged 51, 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 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 71, 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. Prior to this, Mr. Du worked at well known oil and gas organisations including China United Coalbed Methane Corporation Limited, China National Petroleum Corporation and Sinopec Shengli Oilfield and took on important technological roles in these companies.

**Liu Shaobin**, aged 72, 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 consultant of Canada Can-Elite Energy Limited, a wholly-owned subsidiary of the Group, director of Good Hope Energy Group Limited, 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 46, 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 REPORT

## 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 2015 (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 final 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 2014 and the six months ended 30 June 2015 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 Company's Articles of Association (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 its 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 meetings is set out below:

| | Attendance/Number of | | |
|---|---|---|---|
| **Name of Directors** | **Board Meetings** | **Extraordinary General Meetings** | **Annual General Meeting** |
| Mr. Cheng Wai Keung | 55/55 | 2/2 | 1/1 |
| Mr. Tam Tak Wah | 54/55 | 2/2 | 1/1 |
| Ms. Tsang Ching Man | 55/55 | 2/2 | 1/1 |
| Mr. Chan Tsz Kit | 25/25 | 2/2 | 1/1 |
| Mr. Chan Yim Por Bonnie | 25/25 | 2/2 | 1/1 |
| Mr. Albert Saychuan Cheok | 25/25 | 2/2 | 1/1 |
| Mr. Wang Li | 21/25 | 0/2 | 1/1 |

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, implement 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 of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, more than one-third of the Directors (including executive and non-executive) are subject to retirement by rotation at each annual general meeting ("**AGM**") under the Articles. As such, the Company considers that sufficient measures have been taken to ensure that the Company's corporate governance practices are no less exacting than those in the CG Code.

**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 the 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 12 March 2015 and 10 November 2015, 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 Company' business. As at the date of this annual 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 2015 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 | A, 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*

# CORPORATE GOVERNANCE REPORT

## 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 Company's website (www.intl-standardresources.com) and the website of 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 Board's corporate goals and objectives. 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 Company's corporate strategy, 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 the annual report, interim financial information and annual financial statements of the Group. It also reviewed 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. 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 | 0/2 |

## 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;
(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.

During the Year, the Board reviewed the compliance with the CG Code and the effectiveness of the internal controls of the Group.

## 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 14 of the annual report.

## FINANCIAL REPORTING AND INTERNAL CONTROL

### Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements which give a true and fair view of the Group's state of affairs as at 31 December 2015, 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 2015, 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 Company's ability 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 36 to 37 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:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Statutory audit | **550** | 500 |
| Review of interim results | **125** | 125 |
| Other non-audit services provided for: | | |
| – Open offer | **140** | – |
| – Bonus warrant | **25** | – |

**Internal Controls**

The Board has overall responsibility for the establishment, maintenance and review of the internal control systems of the Group covering financial, operational and compliance controls and risk management functions. Such systems are designed to manage the Group's risks within an acceptable risk profile, rather than to eliminate the risk of failure to achieve the policies and business objectives of the Group and to provide reasonable, but not absolute assurance, against material misstatement of management and financial information and records or against financial losses or fraud. Comprehensive program to review and improve the existing internal control systems of the Group has been implemented by the Board and the management and significant findings and areas of improvement has been reported to the Audit Committee from time to time.

During the Year, review of the internal control systems has been done on a systematic basis based on the risk assessments of the operations and controls; no major issue but areas of improvement have been identified. The Board considered key areas of the internal control systems are reasonably implemented and is of the view that the systems are sound, practical and effective.

**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 EGM 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 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 of the Company 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; 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:

- "Shareholder's 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 the all 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 enables the Company's shareholders 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 detail.

## 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, 23 March 2016

# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2015.

## 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 on page 38.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2015.

## BUSINESS REVIEW

A fair review of the businesses of the Group, discussion and analysis of the Group's performance during the year, 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 7 and pages 8 to 13 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 appliance.

Our Group will review its environmental practices from time to time and will consider implementing further eco-friendly measures and practices in the operation of our 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 and the movements in the reserves of the Company during the year are set out in note 35 to the consolidated financial statements.

## SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 28 to the consolidated financial statements.

## EQUITY-LINKED AGREEMENTS

### Convertible notes

On 5 February 2015, 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 convertible notes due 31 December 2015 in the outstanding principal amount of HK$637,000,000 issued by the Company. The new HK$637,000,000 2 per cent convertible notes due 31 December 2018 were issued to the noteholder on 20 March 2015. As at 31 December 2015, convertible notes with principal amount of HK$502,000,000 remained outstanding.

Details of movements in the convertible notes are set out in note 25 to the consolidated financial statements.

### Share options

The share option scheme of the Company adopted on 29 December 2004 (the "**Old Share Option Scheme**") was terminated by the shareholders of the Company at the Company's EGM held on 11 November 2014 before its expiration on 28 December 2014. At the EGM held on 11 November 2014 (the "**Adoption Date**"), the shareholders have approved the adoption of a new share option scheme of the Company (the "**New Share Option Scheme**") in substantially similar terms as those of the Old Share Option Scheme. Under the terms of the New Share Option Scheme, the Directors 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 (the "**Options**") subject to the terms and conditions stipulated in the New Share Option Scheme. A summary of the New 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 New 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 advisor 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 advisor of or contractor to the Group or any Invested Entity;

and for the purpose of the New 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 New 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 the Adoption Date, being 406,907,955 shares (the "**Scheme Mandate Limit**").

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 New 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 New 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 New Share Option Scheme**

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

As at 31 December 2015, 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 New Share Option Scheme is 406,907,955 shares, representing approximately 7.10% of the issued shares of the Company.

# REPORT OF THE DIRECTORS

## EVENTS AFTER THE REPORTING PERIOD

Save as disclosed in note 37 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, Ms. Tsang Ching Man, Mr. Chan Tsz Kit and Mr. Albert Saychuan Cheok 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. Lo Tai In, 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 2015 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 2015 is set out below:

| | **Number of individuals** | |
|---|---|---|
| | **2015** | 2014 |
| **Remuneration bands** | | |
| Nil to HK$500,000 | **1** | 1 |
| HK$500,001 to HK$1,000,000 | **2** | 2 |

## 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 2015, 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 | 687,500 | 137,500 | 0.01% |
| Lyu Guoping | Beneficial | 500,000 | 100,000 | 0.01% |

Save as disclosed above, as at 31 December 2015, 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 2015, the interests and short positions of the substantial shareholders (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be kept in the register under section 336 of the SFO were as follows:

| Name | Nature of interest | Number of shares | Number of underlying shares | Percentage |
|---|---|---|---|---|
| Che Weng Kei | Beneficial/Corporate | 508,187,500 | 101,637,500 | 10.70% |
| Leung Yuk Kit *(note 1)* | Corporate | 673,067,500 | 134,613,500 | 14.17% |
| New Alexander Limited *(note 2)* | Beneficial | – | 5,020,000,000 | 88.06% |
| Woode Investment Limited *(note 3)* | Beneficial/Corporate | 1,168,382,916 | 233,676,583 | 24.60% |

*Notes:*

(1) Leung Yuk Kit's interests are held through two wholly-owned companies, namely Good Max Holdings Limited and Kingston International Capital Limited.

(2) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2018 in an aggregate outstanding principal amount of HK$502,000,000 as at 31 December 2015.

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

Save as disclosed above, as at 31 December 2015, 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 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 had 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 92.37% of the Group's total revenue, of which 43.53% was made to the largest customer.

The aggregate purchase during the year attributable to the Group's five largest suppliers was 97.31% of the Group's total purchases, of which 45.70% 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

HLM CPA Limited ("HLM") were first appointed as auditor of the Company on 21 November 2014 upon the resignation of Crowe Horwath (HK) CPA Limited. The consolidated financial statements of the Company for the years ended 31 December 2014 and 2015 were audited by 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, 23 March 2016

# INDEPENDENT AUDITOR'S REPORT

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)*

We have audited the consolidated financial statements of International Standard Resources Holdings Limited (the "Company") and its subsidiaries (together the "Group") set out on pages 38 to 123, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss, 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 a summary of significant accounting policies and other explanatory information.

## DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants 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.

## AUDITOR'S RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report 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 liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation of consolidated financial statements that give a true and fair view 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 entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

## OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

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

23 March 2016

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| Revenue | 7 | **58,229** | 130,628 |
| Cost of sales | | **(54,812)** | (126,314) |
| Gross profit | | **3,417** | 4,314 |
| Other income | 8 | **3,432** | 1,263 |
| Other gains and losses | 9 | **93,943** | 6,801 |
| Administrative expenses | | **(54,508)** | (42,986) |
| Amortisation of production sharing contract | 17 | **(104,738)** | (107,154) |
| Impairment loss on production sharing contract | 17 | **(419,819)** | – |
| **Loss from operations** | | **(478,273)** | (137,762) |
| Finance costs | 10 | **(67,454)** | (85,423) |
| **Loss before tax** | 11 | **(545,727)** | (223,185) |
| Income tax | 14 | **121,270** | 26,085 |
| **Loss for the year** | | **(424,457)** | (197,100) |
| Attributable to: | | | |
| Owners of the Company | | **(423,744)** | (196,428) |
| Non-controlling interests | | **(713)** | (672) |
| | | **(424,457)** | (197,100) |
| **Loss per share** | 15 | | |
| Basic and diluted (cents per share) | | **(8.98)** | (5.00) |

# **CONSOLIDATED** STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2015

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Loss for the year** | **(424,457)** | (197,100) |
| **Other comprehensive expenses** | | |
| *Items that may be reclassified subsequently to profit or loss:* | | |
| Exchange differences on translation of foreign operations | **(89,845)** | (8,278) |
| Reclassification of other capital reserve upon dissolution of an associate | **–** | (1,805) |
| **Other comprehensive expenses for the year, net of income tax** | **(89,845)** | (10,083) |
| **Total comprehensive expenses for the year** | **(514,302)** | (207,183) |
| Attributable to: | | |
| Owners of the Company | **(513,589)** | (206,511) |
| Non-controlling interests | **(713)** | (672) |
| | **(514,302)** | (207,183) |

# **CONSOLIDATED** STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| **Non-current assets** | | | |
| Property, plant and equipment | 16 | **93,194** | 69,994 |
| Intangible assets | 17 | **1,915,274** | 2,565,708 |
| Available-for-sale financial assets | 19 | **1,000** | 1,000 |
| | | **2,009,468** | 2,636,702 |
| **Current assets** | | | |
| Loan receivables | 20 | **11,570** | – |
| Financial assets at fair value through profit or loss | 21 | **85,373** | 38,592 |
| Trade and other receivables | 22 | **100,324** | 100,503 |
| Cash and bank balances | 23 | **124,920** | 109,932 |
| | | **322,187** | 249,027 |
| **Current liabilities** | | | |
| Other borrowing, unsecured | 24 | **12,908** | 14,431 |
| Convertible notes-liability portion, unsecured | 25 | **–** | 593,767 |
| Convertible notes-embedded derivatives, unsecured | 25 | **–** | 165,285 |
| Trade and other payables | 26 | **46,363** | 46,811 |
| Tax payables | 14(c) | **3,679** | 3,295 |
| | | **62,950** | 823,589 |
| **Net current assets (liabilities)** | | **259,237** | (574,562) |
| **Total assets less current liabilities** | | **2,268,705** | 2,062,140 |

# **CONSOLIDATED** STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Non-current liabilities** | | | |
| Bonds | 27 | **104,197** | 79,289 |
| Convertible notes-liability portion, unsecured | 25 | **376,402** | – |
| Convertible notes-embedded derivatives, unsecured | 25 | **193,493** | – |
| Deferred tax liabilities | 14(d) | **488,222** | 641,427 |
| | | **1,162,314** | 720,716 |
| **Net assets** | | **1,106,391** | 1,341,424 |
| **Capital and reserves** | | | |
| Share capital | 28 | **1,831,702** | 1,552,433 |
| Reserves | | **(721,437)** | (207,848) |
| Equity attributable to owners of the Company | | **1,110,265** | 1,344,585 |
| Non-controlling interests | | **(3,874)** | (3,161) |
| **Total equity** | | **1,106,391** | 1,341,424 |

The consolidated financial statements on pages 38 to 123 were approved and authorised for issue by the board of directors on 23 March 2016 and are signed on its behalf by:

**Ms. Tsang Ching Man**, *DIRECTOR*

**Mr. Tam Tak Wah**, *DIRECTOR*

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Attributable to the owners of the Company | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | Share capital HK$'000 | Share premium HK$'000 (note 36(a)) | Capital redemption reserve HK$'000 (note 36(a)) | Special capital reserve HK$'000 (note 36(b)) | Other capital reserve HK$'000 (note 36(c)) | Warrant reserve HK$'000 | Exchange reserve HK$'000 (note 36(d)) | Accumulated losses HK$'000 | Total HK$'000 | Non-controlling interests HK$'000 | Total equity HK$'000 |
| At 1 January 2014 | 73,589 | 1,413,455 | 5,318 | 579,799 | 1,805 | 21,007 | 293,705 | (876,646) | 1,512,032 | (2,489) | 1,509,543 |
| Loss for the year | – | – | – | – | – | – | – | (196,428) | (196,428) | (672) | (197,100) |
| Other comprehensive expenses | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (8,278) | – | (8,278) | – | (8,278) |
| Reclassification of other capital reserve upon dissolution of an associate | – | – | – | – | (1,805) | – | – | – | (1,805) | – | (1,805) |
| Other comprehensive expenses for the year | – | – | – | – | (1,805) | – | (8,278) | – | (10,083) | – | (10,083) |
| Total comprehensive expenses for the year | – | – | – | – | (1,805) | – | (8,278) | (196,428) | (206,511) | (672) | (207,183) |
| Issue of shares upon exercise of warrants *(note 29)* | 45,899 | 6,044 | – | – | – | (12,879) | – | – | 39,064 | – | 39,064 |
| Transition to no-par value regime *(note 28(b))* | 1,424,817 | (1,419,499) | (5,318) | – | – | – | – | – | – | – | – |
| Transfer upon expiration of warrants *(note 28(c))* | 8,128 | – | – | – | – | (8,128) | – | – | – | – | – |
| At 31 December 2014 and 1 January 2015 | 1,552,433 | – | – | 579,799 | – | – | 285,427 | (1,073,074) | 1,344,585 | (3,161) | 1,341,424 |
| Loss for the year | – | – | – | – | – | – | – | (423,744) | (423,744) | (713) | (424,457) |
| Other comprehensive expenses | | | | | | | | | | | |
| Exchange differences on translation of foreign operations | – | – | – | – | – | – | (89,845) | – | (89,845) | – | (89,845) |
| Other comprehensive expenses for the year | – | – | – | – | – | – | (89,845) | – | (89,845) | – | (89,845) |
| Total comprehensive expenses for the year | – | – | – | – | – | – | (89,845) | (423,744) | (513,589) | (713) | (514,302) |
| Issue of shares upon conversion of convertible notes *(note 25)* | 44,047 | – | – | – | – | – | – | – | 44,047 | – | 44,047 |
| Issue of shares upon exercise of warrants *(note 29)* | 53,810 | – | – | – | – | – | – | – | 53,810 | – | 53,810 |
| Issue of new shares upon open offer *(note 28(d))* | 181,412 | – | – | – | – | – | – | – | 181,412 | – | 181,412 |
| At 31 December 2015 | 1,831,702 | – | – | 579,799 | – | – | 195,582 | (1,496,818) | 1,110,265 | (3,874) | 1,106,391 |

# **CONSOLIDATED** STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015 HK$'000 | 2014 HK$'000 |
|---|---|---|---|
| **Operating activities** | | | |
| Loss before tax | | **(545,727)** | (223,185) |
| Adjustments for: | | | |
| Interest income | 8 | **(609)** | (65) |
| Finance costs | 10 | **67,454** | 85,423 |
| Dividend income | 8 | **(1,472)** | (444) |
| Fair value change of convertible notes-embedded derivatives | 9 | **(19,472)** | 8,929 |
| Gain on disposal of financial assets at fair value through profit or loss | 9 | **(7,713)** | (4,486) |
| Net gain on revaluation of financial assets at fair value through profit or loss | 9 | **(42,884)** | (10,907) |
| Depreciation of property, plant and equipment | 16 | **12,399** | 4,011 |
| Reversal of interest accrued | 8 | **(532)** | (532) |
| Amortisation of production sharing contract | 17 | **104,738** | 107,154 |
| Impairment loss on production sharing contract | 17 | **419,819** | – |
| Gain on dissolution of an associate | 9 | **–** | (1,805) |
| Gain on restructuring of convertible notes | 9 | **(19,705)** | – |
| Gain on redemption of convertible notes | 9 | **(18,205)** | – |
| Loss on disposal of property, plant and equipment | 9 | **–** | 34 |
| Operating cash flow before movements in working capital | | **(51,909)** | (35,873) |
| Decrease in financial assets at fair value through profit or loss | | **3,816** | 7,838 |
| (Increase) decrease in loan receivables | | **(11,570)** | 4,059 |
| Decrease (increase) in trade and other receivables | | **225** | (750) |
| Increase in trade and other payables | | **618** | 9,139 |
| Cash used in operations | | **(58,820)** | (15,587) |
| Income tax paid | | **(80)** | (68) |
| Interest received | | **609** | 65 |
| **Net cash used in operating activities** | | **(58,291)** | (15,590) |

# CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2015

| | Notes | 2015<br>HK$'000 | 2014<br>HK$'000 |
|---|---|---|---|
| **Investing activities** | | | |
| Dividend received | | **1,472** | 444 |
| Purchase of property, plant and equipment | | **(40,363)** | (14,520) |
| Proceeds from disposal of property, plant and equipment | | **–** | 12 |
| **Net cash used in investing activities** | | **(38,891)** | (14,064) |
| **Financing activities** | | | |
| Proceeds from issue of new shares upon open offer, net of share issuance costs | | **181,412** | – |
| Proceeds from issue of shares upon exercise of warrants | | **53,810** | 39,064 |
| Proceeds from issue of bonds | | **21,600** | 79,200 |
| Interest paid | | **(18,874)** | (20,542) |
| Repayment for other borrowing | | **(718)** | (1,334) |
| Payment for redemption of convertible notes | | **(133,000)** | – |
| **Net cash generated from financing activities** | | **104,230** | 96,388 |
| **Net increase in cash and cash equivalents** | | **7,048** | 66,734 |
| Cash and cash equivalents at beginning of year | | **109,752** | 42,080 |
| Effect of foreign exchange rate changes | | **7,940** | 938 |
| Cash and cash equivalents at end of year | 23 | **124,740** | 109,752 |

# **NOTES** TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

## 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 currency 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")

### Application of new and revised HKFRSs

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 HKFRSs | Annual Improvements to HKFRSs 2010-2012 Cycle |
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2011-2013 Cycle |
| Amendments to HKAS 19 | Defined Benefit Plans: Employee Contributions |

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.

### New Hong Kong Companies Ordinance (Cap. 622)

In addition, the requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) come into operation during the financial year, as a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

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

**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:

| | |
|---|---|
| Amendments to HKFRSs | Annual Improvements to HKFRSs 2012-2014 Cycle[1] |
| HKFRS 9 | Financial Instruments[2] |
| Amendments to HKFRS 10 and HKAS 28 | Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3] |
| Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011) | Investment Entities: Applying the Consolidation Exception[1] |
| Amendments to HKFRS 11 | Accounting for Acquisitions of Interests in Joint Operations[1] |
| HKFRS 15 | Revenue from Contracts with Customers[2] |
| Amendments to HKAS 1 | Disclosure Initiative[1] |
| Amendments to HKAS 16 and HKAS 38 | Clarification of Acceptable Methods of Depreciation and Amortisation[1] |
| Amendments to HKAS 16 and HKAS 41 | Agriculture: Bearer Plants[1] |

1 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.
2 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.
3 Effective date yet to be determined by HKICPA.

**HKFRS 9 Financial Instruments**

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

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

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

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement 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 FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of 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, 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.

- 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.

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

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

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.

The provisions of the new Hong Kong Companies Ordinance (Cap. 622) regarding preparation of accounts and directors' reports and audits became effective for the Company for the financial year ended 31 December 2015. Further, the disclosure requirements set out in the Listing Rules regarding annual accounts have been amended with reference to the new Companies Ordinance and to streamline with HKFRSs. Accordingly the presentation and disclosure of information in the consolidated financial statements for the financial year ended 31 December 2015 have been changed to comply with these new requirements. Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Companies Ordinance or Listing Rules but not under the new Companies Ordinance or amended Listing Rules are not disclosed in these consolidated financial statements.

## 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.

The principal accounting policies are set out below.

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

### (c) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured 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.

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.

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

### (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.

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 a 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 a 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 note 17 to the consolidated financial statements is accounted for as a joint operation.

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

**(e) 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 from sale of coalbed methane products is recognised based on gas consumption derived from meter readings.

Revenue from the sale of electronic components is recognised when the goods are delivered and titles have 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 payment have been established (provided that it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably).

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. 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)***

**(f) 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.

**(g) 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 exchanges 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 on monetary items are recognised in profit or loss in the period in which they arise except for:

- exchange differences on foreign currency borrowings relating to assets under construction for future productive use, which are included in the cost of those assets when they are regarded as an adjustment to interest costs on those foreign currency borrowings;

- exchange differences on transactions entered into in order to hedge certain foreign currency risks (see the accounting policies below); and

- exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on repayment of the monetary items.

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

### (g) Foreign currencies *(Continued)*

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign 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).

### (h) 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.

### (i) Employee benefits

*Short term employee benefits and contributions to defined contribution retirement plans*

A liability is recognised for benefits accruing to employees in respect of wages and salaries, annual leave and sick leave in the period the related service is rendered at the undiscounted amount of the benefits expected to be paid in exchange for that service.

Liabilities recognised in respect of short-term employee benefits are measured at the undiscounted amount of the benefits expected to be paid in exchange for the related service.

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.

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

**(i) Employee benefits *(Continued)***

*Short term employee benefits and contributions to defined contribution retirement plans (Continued)*

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.

*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 determined at the grant date of the equity-settled share-based payments 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). For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss. At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. 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.

*Termination benefits*

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

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

### (j) 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.

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 profit or loss.

### (k) 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 operations, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse 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 reverse in the foreseeable future.

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

### (k) Income tax *(Continued)*

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 rate (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

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.

### (l) Property, plant and equipment

Property, plant and equipment including land and buildings, plant and equipment, furniture and fixtures, motor vehicle 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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

**(l) Property, plant and equipment *(Continued)***

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.

**(m) 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 | 23.9 years |

**(n) Impairment of tangible and intangible assets other than goodwill**

At the end of the 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 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 individual asset, 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 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.

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

### (n) Impairment of tangible and intangible assets other than goodwill *(Continued)*

Where an impairment loss subsequently reverses, the carrying amount of the asset (or 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.

### (o) 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.

### (p) 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.

# **NOTES** TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

### (q) 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.

### (r) 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 over the Group;

(ii) has significant influence over the Group; or

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

(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 a parent of the entity).

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)*

### (s) 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.

### (t) 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.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

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

### (t) Financial instruments (*Continued)*

*Financial assets (Continued)*

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)***

**(t) 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 and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income calculated using the effective interest method and dividends on AFS equity investments are recognised in profit or loss. 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).

Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established.

AFS equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

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*)**

**(t) 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, and 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 (see the accounting policy below).

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

### (t) 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 Group 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.

# **NOTES** TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

### (t) Financial instruments (*Continued*)

*Financial liabilities and equity instruments (Continued)*

Financial liabilities

Financial liabilities are classified as either financial liabilities at FVTPL or other financial liabilities.

Other financial liabilities

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

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.

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 proceed received from the issue of warrants, net of direct issue costs, is recognised in equity (warrant reserve). Warrant reserve will be transferred to share capital and share premium accounts before the effective of no-par value regime on 3 March 2014 or share capital account upon the effective of no-par value regime on 3 March 2014, upon the exercise of the warrants. When the warrants are still not exercised at the expiry date, the amount previously recognised in warrant reserve will be transferred to accumulated losses.

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

### (t) Financial instruments (*Continued*)

*Financial liabilities and equity instruments (Continued)*

Convertible notes contain liability component and conversion option derivative
Convertible notes which do not contain an equity component are accounted for as follows:

The component parts of the convertible notes issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled other than by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is a conversion option derivative.

At the date of issue, both the liability component and conversion option derivative are recognised at fair value. In subsequent periods, the liability component of the convertible notes is carried at amortised cost using the effective interest method. The conversion option derivative 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 liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative components are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible notes using the effective interest method.

If the note is converted, the carrying amounts of the derivative and liability components are transferred to share capital and share premium before the effective of no-par value regime on 3 March 2014 or share capital upon the effective of no-par value regime on 3 March 2014 as consideration for the shares issued. If the note is redeemed, any difference between the amount paid and the carrying amounts of both components is recognised in profit or loss.

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.

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

**(t) Financial instruments (*Continued*)**

*Financial liabilities and equity instruments (Continued)*

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.

*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 in its entirety, 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.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

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 recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates. Where the actual future cash flows are less than expected, a material impairment loss may arise.

*(b)* *Escrow monies held in escrow accounts*

As disclosed in note 22(c) to the consolidated financial statements, there was escrow monies of HK$85,000,000 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 33(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 2015. However, in the event that the litigations were unfavourable and the actual future cash inflows were less than expected, an impairment loss may arise in future period.

*(c)* *Impairment of loan receivables*

The Group has established impairment allowances in respect of estimated incurred loss in loan receivables. In determining individual impairment allowances, 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.

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

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

*(c) Impairment of loan receivables (Continued)*

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 risk. The methodology and assumptions used in estimating future cash flows are reviewed regularly to reduce any difference between the loss estimates and 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 23.9 years to 31 March 2038. The management determines the estimated useful lives and basis for amortisation for its 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 estimate of useful economic life, the basis and rate 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 area 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 the information on the size, shape and depth of the coalbed 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 2015 is shown in note 17 to the consolidated financial statements.

## 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 (Continued)*

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.

*(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. Both the valuers and technical advisor are not connected with the Group and with appropriate qualifications and relevant experience in the industry. The Group has estimated the 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 rate 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.

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

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

*(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.

**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 valuations using the binomial lattice model which requires various sources of information and assumptions. The carrying amount of embedded derivatives portion of the convertible notes as at 31 December 2015 was HK$193,493,000 (2014: HK$165,285,000). Further details are disclosed in note 25 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 debt.

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.

The gearing ratio at 31 December 2015 and 2014 was as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Other borrowing | **12,908** | 14,431 |
| Convertible notes | **569,895** | 759,052 |
| Bonds | **104,197** | 79,289 |
| Less: Cash and bank balances | **(124,920)** | (109,932) |
| Total net debt | **562,080** | 742,840 |
| Total equity | **1,106,391** | 1,341,424 |
| Total capital | **1,668,471** | 2,084,264 |
| Gearing ratio | **33.69%** | 35.64% |

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

## 6. FINANCIAL INSTRUMENTS

### (1) Categories of financial instruments

| | **2015** | 2014 |
|---|---|---|
| | ***HK\$'000*** | *HK\$'000* |
| **Financial assets** | | |
| Available-for-sale financial assets | **1,000** | 1,000 |
| Financial assets at fair value through profit or loss | **85,373** | 38,592 |
| Loan and other receivables (including cash and bank balances) | **235,623** | 209,847 |
| | **321,996** | 249,439 |
| **Financial liabilities** | | |
| Bonds | **104,197** | 79,289 |
| Convertible notes-liability portion, unsecured | **376,402** | 593,767 |
| Convertible notes-embedded derivatives, unsecured | **193,493** | 165,285 |
| Other financial liabilities | **54,291** | 49,300 |
| | **728,383** | 887,641 |

### (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 borrowing, bonds, convertible notes, trade payables, other payables and amounts due to the 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 25 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 risk 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 are listed on the Stock Exchange are valued at the quoted market prices at the reporting date.

Sensitivity analysis

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

If the prices of the respective equity instruments had been 10% higher/lower (2014: 10% higher/lower):

- post-tax loss for the year ended 31 December 2015 would decrease/increase by approximately HK$8,537,000 (2014: decrease/increase by approximately HK$3,589,000) 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 2015 and 2014.

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 2015 and 2014, 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$1,249,000 (2014: HK$1,099,000).

*(d) Credit risk*

As at 31 December 2015, 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 the credit risk, the management of the Group has delegated a team to compile the 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 receivable and, where appropriate, credit guarantee insurance cover is purchased.

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

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

*(d) Credit risk (Continued)*

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 the 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 2015.

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

Bank balances are placed in various authorised institutions and the directors of the Company consider the credit risk for such institutions is 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.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

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

#### *(e) Liquidity risk (Continued)*

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:

| | 2015 | | | | | | 2014 | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | 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 borrowing | 12,908 | - | 12,908 | 12,908 | - | - | 14,431 | – | 14,431 | 14,431 | – | – |
| Trade and other payables | 41,383 | - | 41,383 | 41,383 | - | - | 34,869 | – | 34,869 | 34,869 | – | – |
| Bonds | 104,197 | 6.0% | 125,536 | 6,730 | 93,560 | 25,246 | 79,289 | 6.1% | 103,827 | 5,290 | 5,290 | 93,247 |
| Convertible notes (including embedded derivatives) | 569,895 | 2.0% | 532,120 | 10,040 | 10,040 | 512,040 | 759,052 | 2.0% | 690,540 | 690,540 | – | – |
| | 728,383 | | 711,947 | 71,061 | 103,600 | 537,286 | 887,641 | | 843,667 | 745,130 | 5,290 | 93,247 |

#### *(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 demand 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. The management will consider hedging oil and gas exposure should the need arise.

## 6. FINANCIAL INSTRUMENTS *(Continued)*

### (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<br>*HK$'000* | Level 2<br>*HK$'000* | Level 3<br>*HK$'000* |
|---|---|---|---|
| **2015** | | | |
| **Financial assets** | | | |
| – Financial assets at fair value through profit or loss *(note 21)* | **85,373** | **–** | **–** |
| – Available-for-sale financial assets *(note 19)* | **–** | **–** | **1,000** |
| **Financial liabilities** | | | |
| – Convertible notes-embedded derivatives, unsecured *(note 25)* | **–** | **–** | **193,493** |
| | **85,373** | **–** | **194,493** |
| 2014 | | | |
| **Financial assets** | | | |
| – Financial assets at fair value through profit or loss *(note 21)* | 38,592 | – | – |
| – Available-for-sale financial assets *(note 19)* | – | – | 1,000 |
| **Financial liabilities** | | | |
| – Convertible notes-embedded derivatives, unsecured *(note 25)* | – | – | 165,285 |
| | 38,592 | – | 166,285 |

During the years ended 31 December 2015 and 2014, 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.

**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)*

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 2015, the credit spread used in the valuation is 19.8%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the credit spread would increase/decrease the Group's loss by HK$14,238,000/HK$15,195,000 (2014: increase/decrease the Group's loss by HK$15,038,000/HK$15,495,000).

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 25 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$19,472,000 (2014: loss of HK$8,929,000) 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.

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

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

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

## 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 as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Sale of electronic components | **55,299** | 127,918 |
| Sale of coalbed methane products | **1,951** | 2,570 |
| Interest income from money lending | **979** | 140 |
| | **58,229** | 130,628 |

### (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)

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

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

*(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 interest in an associate and 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 2015 and 2014 is set out below:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

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

**Year ended 31 December 2015**

| | Electronic components *HK$'000* | Coalbed methane *HK$'000* | Treasury *HK$'000* | Total *HK$'000* |
|---|---|---|---|---|
| Reportable segment revenue from external customers | **55,299** | **1,951** | **979** | **58,229** |
| Inter-segment revenue | – | – | – | – |
| **Reportable segment revenue** | **55,299** | **1,951** | **979** | **58,229** |
| **Reportable segment results** | **(12,510)** | **(547,205)** | **50,441** | **(509,274)** |
| Amortisation of production sharing contract | – | **104,738** | – | **104,738** |
| Allowance for doubtful debts | **10,765** | – | – | **10,765** |
| Depreciation | **38** | **11,284** | **99** | **11,421** |
| Fair value change of convertible notes-embedded derivatives | – | **(19,472)** | – | **(19,472)** |
| Gain on disposal of financial assets at fair value through profit or loss | – | – | **(7,713)** | **(7,713)** |
| Gain on redemption of convertible notes | – | **(18,205)** | – | **(18,205)** |
| Gain on restructuring of convertible notes | – | **(19,705)** | – | **(19,705)** |
| Impairment loss on production sharing contract | – | **419,819** | – | **419,819** |
| Interest expenses | – | **57,529** | – | **57,529** |
| Net gain on revaluation of financial assets at fair value through profit or loss | – | – | **(42,884)** | **(42,884)** |
| Other income | **(30)** | **(1,326)** | **(1,473)** | **(2,829)** |
| **Reportable segment assets** | **4,614** | **2,010,010** | **219,251** | **2,233,875** |
| Additions to non-current segment assets during the year | – | **40,357** | – | **40,357** |
| **Reportable segment liabilities** | **19,897** | **599,151** | **3,922** | **622,970** |

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

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

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

Year ended 31 December 2014

| | Electronic components<br>*HK$'000* | Coalbed methane<br>*HK$'000* | Treasury<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|
| Reportable segment revenue from external customers | 127,918 | 2,570 | 140 | 130,628 |
| Inter-segment revenue | – | – | – | – |
| **Reportable segment revenue** | 127,918 | 2,570 | 140 | 130,628 |
| **Reportable segment results** | (1,544) | (212,317) | 14,070 | (199,791) |
| Amortisation of production sharing contract | – | 107,154 | – | 107,154 |
| Depreciation | 38 | 2,930 | 122 | 3,090 |
| Fair value change of convertible notes-embedded derivatives | – | 8,929 | – | 8,929 |
| Gain on disposal of financial assets at fair value through profit or loss | – | – | (4,486) | (4,486) |
| Interest expenses | – | 85,158 | – | 85,158 |
| Net gain on revaluation of financial assets at fair value through profit or loss | – | – | (10,907) | (10,907) |
| Other income | (44) | (541) | (445) | (1,030) |
| **Reportable segment assets** | 15,391 | 2,635,712 | 135,911 | 2,787,014 |
| Additions to non-current segment assets during the year | – | 13,696 | – | 13,696 |
| **Reportable segment liabilities** | 18,142 | 782,949 | 3,850 | 804,941 |

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

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

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| **Revenue** | | |
| Reportable segment revenue | **58,229** | 130,628 |
| Elimination of inter-segment revenue | **–** | – |
| Consolidated revenue | **58,229** | 130,628 |
| **Profit or loss** | | |
| Reportable segment results | **(509,274)** | (199,791) |
| Other income | **603** | 233 |
| Other gains and losses | **(1,697)** | 367 |
| Unallocated head office and corporate expenses | **(35,359)** | (23,994) |
| Consolidated loss before tax | **(545,727)** | (223,185) |
| **Assets** | | |
| Reportable segment assets | **2,233,875** | 2,787,014 |
| Unallocated head office and corporate assets | **97,780** | 98,715 |
| Consolidated total assets | **2,331,655** | 2,885,729 |
| **Liabilities** | | |
| Reportable segment liabilities | **622,970** | 804,941 |
| Tax payable | **3,679** | 3,295 |
| Deferred tax liabilities | **488,222** | 641,427 |
| Unallocated head office and corporate liabilities | **110,393** | 94,642 |
| Consolidated total liabilities | **1,225,264** | 1,544,305 |

**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*** |
| **2015** | | | |
| Revenue | **56,278** | **1,951** | **58,229** |
| Specified non-current assets | **1,777** | **2,007,691** | **2,009,468** |
| 2014 | | | |
| Revenue | 128,058 | 2,570 | 130,628 |
| Specified non-current assets | 2,534 | 2,634,168 | 2,636,702 |

*(iv) Information about major customers*

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Customer A* | **10,623** | N/A |
| Customer B | **25,347** | 62,659 |
| Customer C** | **6,867** | N/A |
| Customer D | **8,422** | 43,753 |
| | **51,259** | 106,412 |

* Customer A is a new customer in 2015.

** Customer C contributed less than 10% of the Group's total revenue for the year ended 31 December 2014.

## 8. OTHER INCOME

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Bank interest income | **609** | 65 |
| Consultancy fee | **–** | 179 |
| Dividend income | **1,472** | 444 |
| Reversal of interest accrued *(note)* | **532** | 532 |
| Sundry income | **819** | 43 |
| | **3,432** | 1,263 |

*Note:*

As disclosed in notes 17 and 24, 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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Allowance for doubtful debts | **(10,765)** | – |
| Fair value change of convertible notes-embedded derivatives | **19,472** | (8,929) |
| Gain on disposal of financial assets at fair value through profit or loss | **7,713** | 4,486 |
| Gain on dissolution of an associate | **–** | 1,805 |
| Gain on redemption of convertible notes | **18,205** | – |
| Gain on restructuring of convertible notes | **19,705** | – |
| Loss on disposal of property, plant and equipment | **–** | (34) |
| Net gain on revaluation of financial assets at fair value through profit or loss | **42,884** | 10,907 |
| Net foreign exchange loss | **(3,271)** | (1,434) |
| | **93,943** | 6,801 |

## 10. FINANCE COSTS

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Imputed interest on convertible notes | **57,529** | 85,158 |
| Imputed interest on bonds | **9,925** | 265 |
| | **67,454** | 85,423 |

## 11. LOSS BEFORE TAX

Loss before tax is arrived at after charging:

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| (a) Staff costs (including directors' emoluments) | | |
| Salaries, wages and other benefits | **24,268** | 22,095 |
| Contributions to defined contribution retirement plans | **1,590** | 1,305 |
| Total staff costs | **25,858** | 23,400 |
| (b) Other items | | |
| Allowance for doubtful debts | **10,765** | – |
| Amortisation of production sharing contract | **104,738** | 107,154 |
| Auditor's remuneration | | |
| – Audit services | **550** | 500 |
| – Non-audit services | **290** | 125 |
| Cost of inventories recognised as expenses | **54,812** | 126,314 |
| Depreciation of property, plant and equipment | **12,399** | 4,011 |
| Impairment loss on production sharing contract | **419,819** | – |
| Loss on disposal of property, plant and equipment | **–** | 34 |
| Operating lease charges in respect of land and buildings | **2,468** | 3,608 |

# **NOTES** TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

## 12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENT

### (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:

**2015**

| | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Cheng Wai Keung | – | 275 | 26 | 14 | 315 |
| Tam Tak Wah | – | 670 | 54 | 18 | 742 |
| Tsang Ching Man | – | 929 | 73 | 18 | 1,020 |
| **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 |
| **Chief executive** | | | | | |
| Lyu Guoping | – | 1,685 | 224 | 18 | 1,927 |
| | 780 | 3,559 | 377 | 68 | 4,784 |

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

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

2014

| | Fees | Salaries, allowances and benefits in kind | Discretionary bonuses | Retirement scheme contributions | Total |
|---|---|---|---|---|---|
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Executive directors** | | | | | |
| Cheng Wai Keung | – | 264 | 19 | 14 | 297 |
| Tam Tak Wah | – | 644 | 28 | 17 | 689 |
| Tsang Ching Man | – | 893 | 50 | 17 | 960 |
| **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 |
| **Chief executive** | | | | | |
| Lyu Guoping | – | 1,639 | 66 | 17 | 1,722 |
| | 780 | 3,440 | 163 | 65 | 4,448 |

*Notes:*

(i) None of the directors or chief executive waived any emoluments during the years ended 31 December 2015 and 2014.

(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 2015 and 2014.

(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 2015 and 2014.

(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 2015 and 2014.

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

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

**(b) Directors' retirement benefits**

None of the directors received or will receive any retirement benefits during the year (2014: Nil).

**(c) Directors' termination benefits**

None of the directors received or will receive any termination benefits during the year (2014: Nil).

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

During the year ended 31 December 2015, the Company did not pay consideration to any third parties for making available directors' services (2014: 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 2015, there is no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2014: 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 (2014: Nil).

## 13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees of the Group during the year included one director and the chief executive (2014: one director and the chief executive), details of whose emoluments are set out in note 12 above. The emoluments of the remaining three (2014: three) individuals are as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and other benefits in kind | **4,447** | 3,907 |
| Discretionary bonuses | **186** | 172 |
| Retirement scheme contributions | **54** | 50 |
| | **4,687** | 4,129 |

| | **Number of individuals** | |
|---|---|---|
| | **2015** | 2014 |
| **Emoluments bands** | | |
| Nil to HK$1,000,000 | **–** | 1 |
| HK$1,000,001 to HK$1,500,000 | **2** | 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 2015 and 2014.

## 14. INCOME TAX

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current tax | | |
| PRC Enterprise Income Tax | **67** | 64 |
| Hong Kong Profits Tax | **398** | 639 |
| Deferred tax *(note 14(d))* | | |
| Origination and reversal of temporary differences | **(131,139)** | (26,788) |
| Net gain on revaluation of financial assets at fair value through profit or loss | **9,404** | – |
| Income tax credit | **(121,270)** | (26,085) |

(i) The provision for Hong Kong Profits Tax is calculated at 16.5% (2014:16.5%) 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% (2014: 28%).

Pursuant to the tax treaty agreement between the government of the PRC 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 2015 and 2014.

(iii) The subsidiaries in the PRC are subject to PRC Enterprise Income Tax rate of 25% (2014: 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:**

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Loss before tax | **(545,727)** | (223,185) |
| Notional tax on loss before tax, calculated at the rates applicable in the jurisdictions concerned | **(162,580)** | (47,396) |
| Tax effect of income not taxable for tax purpose | **(7,264)** | (2,239) |
| Tax effect of expenses not deductible for tax purpose | **43,747** | 20,101 |
| Tax effect of deductible temporary differences not recognised | **49** | 35 |
| Tax effect of tax losses not recognised | **4,778** | 3,503 |
| Utilisation of tax losses previously not recognised | **–** | (72) |
| Tax effect of tax deduction | **–** | (17) |
| Income tax credit | **(121,270)** | (26,085) |

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| PRC Enterprise Income Tax | **2,637** | 2,656 |
| Hong Kong Profits Tax | **1,042** | 639 |
| | **3,679** | 3,295 |

**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:**

| | **Net gain on revaluation 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 2014 | – | 671,045 | 671,045 |
| Credit to consolidated statement of profit or loss *(note 14(a))* | – | (26,788) | (26,788) |
| Exchange adjustment | – | (2,830) | (2,830) |
| At 31 December 2014 and 1 January 2015 | – | 641,427 | 641,427 |
| Charge (credit) to consolidated statement of profit or loss *(note 14(a))* | 9,404 | (131,139) | (121,735) |
| Exchange adjustment | – | (31,470) | (31,470) |
| At 31 December 2015 | 9,404 | 478,818 | 488,222 |

**(e) Deferred tax assets not recognised**

Deferred tax assets of the Group amounting to HK$18,471,000 (2014: HK$13,534,000), 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

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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| ***Loss for the purpose of basic loss per share*** | | |
| Loss for the year attributable to owners of the Company | **423,744** | 196,428 |

| | 2015 | 2014 |
|---|---|---|
| ***Weighted average number of ordinary shares for the purpose of basic loss per share*** | | |
| Issued ordinary shares at 1 January | **4,069,417,989** | 3,679,433,991 |
| Effect of exercise of warrants | **98,196,142** | 251,757,005 |
| Effect of new shares issued upon open offer | **246,433,533** | – |
| Effect of conversion of convertible notes | **306,849,315** | – |
| Weighted average number of ordinary shares at 31 December | **4,720,896,979** | 3,931,190,996 |

### (b) Diluted loss per share

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

## 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 2014 | 6,834 | – | 68,050 | 1,962 | 3,537 | 1,309 | 81,692 |
| Exchange adjustment | (28) | (148) | (114) | (3) | (7) | – | (300) |
| Additions | – | 13,649 | – | 166 | – | 705 | 14,520 |
| Transfer | – | (13,501) | 13,501 | – | – | – | – |
| Disposals | – | – | (2) | – | (150) | – | (152) |
| At 31 December 2014 and 1 January 2015 | 6,806 | – | 81,435 | 2,125 | 3,380 | 2,014 | 95,760 |
| Exchange adjustment | (380) | (247) | (5,547) | (45) | (97) | – | (6,316) |
| Additions | – | 40,300 | – | 63 | – | – | 40,363 |
| Transfer | – | (32,802) | 32,802 | – | – | – | – |
| Written off | – | – | (768) | – | – | (1,186) | (1,954) |
| At 31 December 2015 | 6,426 | 7,251 | 107,922 | 2,143 | 3,283 | 828 | 127,853 |
| **Accumulated depreciation** | | | | | | | |
| At 1 January 2014 | 1,082 | – | 16,796 | 1,962 | 869 | 1,222 | 21,931 |
| Exchange adjustment | (4) | – | (63) | (2) | (1) | – | (70) |
| Charge for the year | 340 | – | 2,942 | 20 | 508 | 201 | 4,011 |
| Eliminated on disposal of assets | – | – | (1) | – | (105) | – | (106) |
| At 31 December 2014 and 1 January 2015 | 1,418 | – | 19,674 | 1,980 | 1,271 | 1,423 | 25,766 |
| Exchange adjustment | (90) | – | (1,432) | (4) | (26) | – | (1,552) |
| Charge for the year | 332 | – | 11,144 | 70 | 476 | 377 | 12,399 |
| Written off | – | – | (768) | – | – | (1,186) | (1,954) |
| At 31 December 2015 | 1,660 | – | 28,618 | 2,046 | 1,721 | 614 | 34,659 |
| **Carrying amounts** | | | | | | | |
| At 31 December 2015 | 4,766 | 7,251 | 79,304 | 97 | 1,562 | 214 | 93,194 |
| At 31 December 2014 | 5,388 | – | 61,761 | 145 | 2,109 | 591 | 69,994 |

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 2015 and 2014.

## 17. INTANGIBLE ASSETS

| | **Production sharing contract ("PSC")** |
|---|---|
| | *HK$'000* |
| **Cost** | |
| At 1 January 2014 | 4,188,083 |
| Exchange adjustment | (17,467) |
| At 31 December 2014 and 1 January 2015 | 4,170,616 |
| Exchange adjustment | (232,669) |
| At 31 December 2015 | 3,937,947 |
| **Accumulated amortisation and impairment** | |
| At 1 January 2014 | 1,503,903 |
| Charge for the year | 107,154 |
| Exchange adjustment | (6,149) |
| At 31 December 2014 and 1 January 2015 | 1,604,908 |
| Charge for the year | 104,738 |
| Impairment loss | 419,819 |
| Exchange adjustment | (106,792) |
| At 31 December 2015 | 2,022,673 |
| **Carrying amount** | |
| At 31 December 2015 | 1,915,274 |
| At 31 December 2014 | 2,565,708 |

## 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 advisor of the Company as to the PRC laws, advised that China United and Can-Elite had obtained all relevant approvals in relation to the execution and implementation of the PSC.

On 28 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, a supplemental agreement was made between China United and Can-Elite 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 has entered into the third modification agreement to the modified PSC with China United. Pursuant to the third modification agreement, among other things, the exploration area of approximately 567.843 square kilometers, located in Su'nan, Anhui Province as set out under the modified PSC has been divided into Area A and Area B, consisting of 23.686 and 544.157 square kilometers, respectively. The exploration period of Area A has been extended for a period up to the date in which the relevant authorities of the PRC government grant the approval for the overall development program, whereas the exploration period of Area B has been extended for two more years from 1 April 2015 to 31 March 2017. During the extended exploration period, Can-Elite shall expend at least RMB8,000,000 per year for the exploration of Area A, and at least RMB40,000,000 for the exploration of Area B, respectively.

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

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

## 17. INTANGIBLE ASSETS *(Continued)*

*Notes: (Continued)*

(a) *(Continued)*

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

The PSC is amortised on straight-line basis over the remaining contract terms of 23.9 years (2014: 24.9 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:

| | | **2015** | 2014 |
|---|---|---|---|
| | | ***HK$'000*** | *HK$'000* |
| (i) | **Results for the year** | | |
| | Revenue | **1,951** | 2,570 |
| | Administrative expenses | **(22,995)** | (13,205) |
| | Finance costs | **(57,529)** | (85,158) |
| | Amortisation of PSC | **(104,738)** | (107,154) |
| | Impairment loss on PSC | **(419,819)** | – |
| | PRC Corporate Income Tax | **(67)** | (64) |
| | Reversal of deferred tax liabilities | **131,139** | 26,788 |
| (ii) | **Other comprehensive expense** | | |
| | Exchange difference on translation of foreign operations | **(89,969)** | (8,270) |
| (iii) | **Assets and liabilities** | | |
| | Intangible assets – PSC | **1,915,274** | 2,565,708 |
| | Plant and machinery | **87,596** | 62,994 |
| | Other payables | **(16,348)** | (9,466) |
| | Other borrowing | **(12,908)** | (14,431) |
| | Tax liabilities | **(16)** | (14) |
| | Deferred tax liabilities *(note 14(d))* | **(478,818)** | (641,427) |
| (iv) | **Capital commitments** *(note 32(a))* | | |
| | Contracted but not provided for | **27,549** | 26,558 |

# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

## 17. INTANGIBLE ASSETS *(Continued)*

*Notes: (Continued)*

(a) *(Continued)*

(iv) **Capital commitments** *(note 32(a)) (Continued)*

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

(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 DTZ Debenham Tie Leung Limited, an independent firm of professional valuer not connected with the Group. For the purpose of impairment testing, the carrying amount of intangible assets has been allocated to an individual cash-generating unit.

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

| | |
|---|---|
| Period of cash flow projections | 22 years |
| Discount rate (pre-tax) | 19.15% |

The calculation is based on the pre-tax cash flow projections of the financial budgets approved by the management covering the 22-year period and a pre-tax discount rate of 19.15% (2014: 19.73%) which have duly reflected risks specific to the PSC, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, and exploitation method are appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's experience and expectation for the market development in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2015 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 significant decrease in the price of natural domestic gas, being one of the key factors in determining the recoverable amount of the PSC, in 2015, the carrying amount of the PSC exceeds its estimated recoverable amount and an impairment loss of HK$419,819,000 (2014: Nil) has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2015.

## 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.

| 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 |
|---|---|---|---|---|---|---|
| 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") | 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 |
| Magic Chance Investments Limited | BVI | 100% | 100% | – | US$1 | Securities trading |

## 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 |
| 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 |
| 駿達朝陽(北京)投資管理諮詢有限公司 *(note)* | PRC | 100% | – | 100% | HK$3,500,000 | Property investment |

## 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 |
| 深圳市白雲能源技術有限公司 *(note)* | PRC | 100% | – | 100% | RMB6,030,447 | 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 |

*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 2015 and 2014.

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Club debentures at fair value | **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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

### 20. LOAN RECEIVABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Treasury business: | | |
| – Secured short-term loans | **11,570** | – |

As at 31 December 2015, secured short-term loans represented short-term loans advanced to independent third party borrowers with collateral over their properties or vehicles, bearing interest from 0.83% to 2.55% per month and are subject to demand repayment clause.

In May 2015, the Group, through a subsidiary, advanced a loan of HK$4,000,000 (the "Loan") to a borrower. The Loan was secured by a deed of mortgage whereby a property was mortgaged/charged to secure repayment of the Loan. The principal of the Loan became due and payable on 8 November 2015. The borrower, in breach of the loan agreement, failed to repay the principal of the Loan or any part thereof. In January 2016, the Group, through its solicitors, took out a writ of summons against the borrower claiming for, among other things, the unpaid principal and interest of the Loan and order of possession of the mortgaged/charged property. The directors of the Company are of the opinion, based on the legal advice sought, that the Loan can be recovered in full as the market value of the charged property is higher than the Loan and therefore, no impairment loss is required as at 31 December 2015.

### 21. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Held for trading investments: | | |
| Listed investments in Hong Kong at fair value *(note)* | **85,373** | 38,592 |

*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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| Trade receivables *(note (a))* | **14,403** | 14,170 |
| Less: Allowance for doubtful debts *(note (b))* | **(11,094)** | (329) |
| | **3,309** | 13,841 |
| Other receivables *(note (c))* | **95,206** | 85,440 |
| Deposits and prepayments | **1,809** | 1,222 |
| | **97,015** | 86,662 |
| | **100,324** | 100,503 |

*Notes:*

(a) Ageing analysis of trade receivables

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

| | 2015 | 2014 |
|---|---|---|
| | *HK$'000* | *HK$'000* |
| 0-30 days | **2,241** | 10,236 |
| 31-90 days | **2,373** | 3,605 |
| 91-365 days | **9,460** | – |
| Over 365 days | **329** | 329 |
| | **14,403** | 14,170 |
| Less: Allowance for doubtful debts | **(11,094)** | (329) |
| | **3,309** | 13,841 |

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.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2015

### 22. TRADE AND OTHER RECEIVABLES *(Continued)*

*Notes: (Continued)*

(b) Allowance for doubtful debts

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

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| At 1 January | **329** | 329 |
| Allowance recognised on trade receivables | **10,765** | – |
| At 31 December | **11,094** | 329 |

At 31 December 2015, the Group's trade receivables of HK$11,094,000 (2014: HK$329,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. The Group does not hold any collateral over the trade receivable balances.

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

(c) Included in other receivables of the Group were aggregate sums of HK$85,000,000 (2014: 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 33(a) to the consolidated financial statements. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow monies can be recovered in full and therefore, no impairment loss is required as at 31 December 2015.

In addition, other receivables included sales transactions waiting settlement of HK$9,500,000 which represented amount receivable from stock brokerage firms for listed securities investments sold but not yet settled as at the reporting date.

### 23. CASH AND BANK BALANCES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Cash at banks and on hand | **124,920** | 109,932 |
| Less: Pledged bank deposits | **(180)** | (180) |
| Cash and cash equivalents in the consolidated statement of cash flows | **124,740** | 109,752 |

Bank balances carry interest ranging from 0.01% to 2.86% (2014: from 0.01% to 3.3%) per annum. Short-term bank deposits amounting to HK$180,000 (2014: HK$180,000) carry fixed interest rate of 0.1125% (2014: 0.1125%) per annum and are pledged to a bank to secure banking facilities granted to the Group.

## 24. 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.

## 25. CONVERTIBLE NOTES, UNSECURED

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

The initial conversion price of the Old Convertible Notes was HK$0.065 per share, subject to anti-dilutive adjustment, the Old Convertible Notes bear interest at 2% per annum, payable semi-annually in arrears on 30 June and 31 December, and will mature on 31 December 2015. The holders of the Old Convertible Notes shall have the right to convert the whole or any part of the principal amount of the Old Convertible Notes into ordinary shares of the Company, at any time between the date of issue of the Old Convertible Notes and 31 December 2015.

The Old Convertible Notes contain two components, liability and embedded derivatives. The liability component is carried at amortised cost using the effective interest method. The embedded derivatives component is carried at fair value. The effective interest rate of the liability component for the Old Convertible Notes is 16.40% per annum.

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

During the year ended 31 December 2013, Old Convertible Notes with principal amount of HK$18,000,000 were redeemed. At 31 December 2014, Old Convertible Notes with principal amount of HK$677,000,000 in aggregate remained outstanding. During the year ended 31 December 2014, no Old Convertible Notes was redeemed.

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

## 25. CONVERTIBLE NOTES, UNSECURED *(Continued)*

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

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

The conversion price of the New Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issued under open offer and bonus issue of warrants as detailed in note 28 to the consolidated financial statements.

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

The following key inputs and data were applied to the binomial lattice model for the derivatives embedded in the convertible notes at 31 December 2015 and 2014.

| | **At 31/12/2015** | At 31/12/2014 |
|---|---|---|
| Share price | **HK$0.136** | HK$0.320 |
| Conversion price | **HK$0.10** | HK$0.12 |
| Risk-free rate | **0.75%** | 0.13% |
| Expected dividend yield | **Nil** | Nil |
| Annualised volatility | **71.74%** | 69.50% |

During the year ended 31 December 2015, New Convertible Notes with principal amount of HK$135,000,000 were redeemed, together with a discount of HK$2,000,000 provided by the convertible noteholder, resulting in a gain of HK$18,205,000 which was recognised in the consolidated statement of profit or loss.

**25. CONVERTIBLE NOTES, UNSECURED *(Continued)***

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

**Old Convertible Notes due on 31 December 2015**

| | Embedded derivatives portion<br>*HK$'000* | Liability portion<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| Carrying amount of convertible notes (with principal amount of HK$677,000,000) as at 1 January 2014 | 156,356 | 528,975 | 685,331 |
| Imputed interest charged to consolidated statement of profit or loss | – | 85,158 | 85,158 |
| Increase in fair value charged to consolidated statement of profit or loss | 8,929 | – | 8,929 |
| Interest paid | – | (20,366) | (20,366) |
| Carrying amount of convertible notes (with principal amount of HK$677,000,000) as at 31 December 2014 and 1 January 2015 | 165,285 | 593,767 | 759,052 |
| Conversion of convertible notes (with principal amount of HK$40,000,000) | (8,523) | (35,524) | (44,047) |
| Imputed interest charged to consolidated statement of profit or loss | – | 19,118 | 19,118 |
| Decrease in fair value credited to consolidated statement of profit or loss | (74,630) | – | (74,630) |
| Interest paid | – | (2,788) | (2,788) |
| Carrying amount immediately before restructuring | 82,132 | 574,573 | 656,705 |
| Fair value at the date of restructuring | (189,218) | (447,782) | (637,000) |
| Gain on restructuring | 107,086 | (126,791) | (19,705) |
| Carrying amount of convertible notes | – | – | – |

## 25. CONVERTIBLE NOTES, UNSECURED *(Continued)*

**New Convertible Notes due on 31 December 2018**

| | Embedded derivatives portion<br>*HK$'000* | Liability portion<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|
| Issue of convertible notes (with principal amount of HK$637,000,000) on 20 March 2015 | 189,218 | 447,782 | 637,000 |
| Imputed interest charged to consolidated statement of profit or loss | – | 38,411 | 38,411 |
| Increase in fair value charged to consolidated statement of profit or loss | 55,158 | – | 55,158 |
| Redemption | (50,883) | (100,322) | (151,205) |
| Interest paid | – | (9,469) | (9,469) |
| Carrying amount of convertible notes (with principal amount of HK$502,000,000) as at 31 December 2015 | 193,493 | 376,402 | 569,895 |

At 31 December 2015, New Convertible Notes with principal amount of HK$502,000,000 remained outstanding.

## 26. TRADE AND OTHER PAYABLES

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Trade payables *(note)* | **1,995** | 2,495 |
| Other payables | **25,234** | 20,320 |
| Amounts due to non-controlling interests of a subsidiary | **14,154** | 12,054 |
| Accrued expenses | **4,980** | 11,942 |
| | **46,363** | 46,811 |

*Note:*

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Current – within 1 month | **981** | 968 |
| More than 1 month but within 3 months | **856** | 1,406 |
| More than 3 months but within 6 months | **–** | 24 |
| More than 6 months | **158** | 97 |
| | **1,995** | 2,495 |

## 27. BONDS

| | Unlisted bond ("Bond I") *HK$'000* *(note (a))* | Unlisted bond ("Bond II") *HK$'000* *(note (b))* | Total *HK$'000* |
|---|---|---|---|
| At 1 January 2014 | – | – | – |
| Issue of bonds, net of transaction cost | 78,300 | 900 | 79,200 |
| Interest charge | 256 | 9 | 265 |
| Less: Interest paid | (171) | (5) | (176) |
| At 31 December 2014 and 1 January 2015 | 78,385 | 904 | 79,289 |
| Issue of bonds, net of transaction cost | 21,600 | – | 21,600 |
| Interest charge | 9,839 | 86 | 9,925 |
| Less: Interest paid | (6,547) | (70) | (6,617) |
| At 31 December 2015 | 103,277 | 920 | 104,197 |

*Notes:*

(a) During the year ended 31 December 2014, Bond I with an aggregate principal amount of HK$10,000,000 were issued to the subscriber through the placing agent and with an aggregate principal amount of HK$77,000,000 were issued to individual subscribers with the interest rate of 6% payable annually.

During the year ended 31 December 2015, Bond I with an aggregate principal amount of HK$1,000,000 were issued to the subscriber through the placing agent and with an aggregate principal amount of HK$23,000,000 were issued to individual subscribers with the interest rate of 6% payable annually.

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

The imputed interest expenses on Bond I were calculated using effective interest method with average effective interest rate of 10.01% (2014: 9.98%) per annum.

(b) During the year ended 31 December 2014, Bond II with an aggregate principal amount of HK$1,000,000 were issued to the subscriber through the placing agent with the interest rate of 7% payable annually.

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

The imputed interest expenses on Bond II was calculated using effective interest method with effective interest rate of 9.58% (2014: 9.58%) per annum.

## 28. SHARE CAPITAL

| | Number of shares | Share capital |
|---|---|---|
| | | *HK$'000* |
| **Authorised:** | | |
| Ordinary shares of HK$0.02 each at 1 January 2014 | 12,500,000,000 | 250,000 |
| At 31 December 2014, 1 January 2015 and 31 December 2015 *(note (a))* | N/A | N/A |
| **Issued and fully paid:** | | |
| Ordinary shares of HK$0.02 each at 1 January 2014 | 3,679,433,991 | 73,589 |
| Issue of shares upon exercise of warrants *(note 29)* | 389,983,998 | 45,899 |
| Transition to no-par value regime *(note (b))* | – | 1,424,817 |
| Lapsed of warrants *(note (c))* | – | 8,128 |
| At 31 December 2014 and 1 January 2015 | 4,069,417,989 | 1,552,433 |
| Issue of shares upon conversion of convertible notes *(note 25)* | 333,333,333 | 44,047 |
| Issue of new shares upon open offer *(note (d))* | 1,138,585,309 | 181,412 |
| Issue of shares upon exercise of warrants *(note 29)* | 159,021,443 | 53,810 |
| At 31 December 2015 | 5,700,358,074 | 1,831,702 |

The holders of ordinary shares are entitled to receive dividends as declared from time to time and are entitled to one vote per share at meeting of the Company. All ordinary shares rank equally with regard to the Company's residual assets.

## 28. SHARE CAPITAL *(Continued)*

*Notes:*

(a) **New Companies Ordinance**
Under the Hong Kong Companies Ordinance (Cap. 622), which became effective from 3 March 2014, the concept of authorised share capital no longer exists and the Company's shares no longer have a par or nominal value. There is no impact on the number of shares in issue or the relative entitlement of any of the shareholders as a result of this transition.

(b) **Transition to no-par value regime**
In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, any amount standing to the credit of the share premium account and the capital redemption reserve become part of the Company's share capital.

(c) **Lapse of warrants**
On 23 June 2014, bonus warrants issued in 2013 had been lapsed. The warrant reserve was transferred to share capital.

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

All the new shares issued during the years ended 31 December 2015 and 2014 ranked pari passu with the then existing shares in all respects.

## 29. WARRANTS

On 24 June 2013, 663,847,320 bonus warrants ("2013 Warrants") were issued on the basis of two bonus warrants for every one rights share taken up. Each 2013 Warrant entitled the holder to subscribe for one share of the Company at an initial exercise price of HK$0.10, subject to adjustments in accordance with the terms of the warrants. The 2013 Warrants were exercisable at any time during the period commencing from 24 June 2013 to 23 June 2014 (both dates inclusive).

During the year ended 31 December 2014, 389,645,561 ordinary shares were issued for cash at an exercise price of HK$0.10 per share pursuant to the exercise of the 2013 Warrants. The 2013 Warrants were lapsed on 23 June 2014.

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

During the year ended 31 December 2014, 338,437 ordinary shares were issued for cash at the subscription price of HK$0.35 per share pursuant to the exercise of the 2014 Warrants. At 31 December 2014, the outstanding number of 2014 Warrants were 542,205,503.

## 29. WARRANTS *(Continued)*

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

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

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

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

## 30. SHARE OPTION SCHEME

The share option scheme of the Company adopted on 29 December 2004 was terminated by the shareholders of the Company at the Company's extraordinary general meeting held on 11 November 2014 before its expiration on 28 December 2014. The Company operates a share option scheme (the "Scheme") approved by the shareholders on 11 November 2014, under which the directors of the Company may, at their discretion, offer any eligible participants (including any directors) of the Company or of any of its subsidiaries options to subscribe for shares in the Company subject to the terms and conditions stipulated in the Scheme. For each lot of the share options granted, the participants will pay a nominal consideration of HK$1. The period within which the shares must be taken up under an option is determined by the board of directors of the Company from time to time, except that such period shall not exceed ten years from the date of grant of the options.

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

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 11 November 2014. This limit can 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 2015 and 2014. There were no share options outstanding as at 31 December 2015 and 2014.

## 31. 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 (HK$25,000 from 1 January 2013 to 31 May 2014). Contributions to the plan vest immediately. The Group has no other material obligation for the payment of pension benefit 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 2015 were HK$1,590,000 (2014: HK$1,305,000). As at 31 December 2015, there was no material outstanding contribution to employee retirement benefits.

## 32. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2015 not provided for in the consolidated financial statements were as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Production sharing contract: | | |
| – Contracted but not provided for | **27,549** | 26,558 |

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

**32. COMMITMENTS *(Continued)***

(b) At 31 December 2015, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Within 1 year | **1,379** | 2,007 |
| After 1 year but within 5 years | **281** | 1,081 |
| | **1,660** | 3,088 |

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.

**33. CONTINGENCIES**

**(a) Legal proceedings**

At the end of the reporting period, the Group had escrow monies in the sum of HK$85,000,000 placed at a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group. Despite the repeated requests served to K&L Gates for the release of the escrow monies, the Group had not received the escrow monies. It was reported that a partner in K&L Gates was arrested by the Hong Kong Police and was charged with theft and forgery with respect to escrow monies held in escrow accounts; the case was concluded in the Court of First Instance when the partner pleaded guilty and was sentenced to 12 years' imprisonment. The Group has instituted legal proceedings against K&L Gates, claiming for the return of the escrow monies. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow monies can be recovered in full and therefore, no impairment loss is required as at 31 December 2015.

In May 2015, the Group, through a subsidiary, advanced a loan of HK$4,000,000 to a borrower. The Loan was secured by a deed of mortgage whereby a property was mortgaged/charged to secure repayment of the Loan. The principal of the Loan became due and payable on 8 November 2015. The borrower, in breach of the loan agreement, failed to repay the principal of the Loan or any part thereof. In January 2016, the Group, through its solicitors, took out a writ of summons against the borrower claiming for, among other things, the unpaid principal and interest of the Loan and order of possession of the mortgaged/charged property. The directors of the Company are of the opinion, based on the legal advice sought, that the Loan can be recovered in full as the market value of charged property is higher than the Loan and therefore, no impairment loss is required as at 31 December 2015.

## 33. CONTINGENCIES *(Continued)*

### (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.

## 34. 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**

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Salaries, allowances and benefits in kind | **7,799** | 6,041 |
| Discretionary bonuses | **377** | 97 |
| Retirement scheme contributions | **122** | 97 |
| | **8,298** | 6,235 |

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

| | **2015** | 2014 |
|---|---|---|
| | ***HK$'000*** | *HK$'000* |
| Amounts due to non-controlling interests of a subsidiary | **14,154** | 12,054 |

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

## 35. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

| | 2015<br>*HK$'000* | 2014<br>*HK$'000* |
|---|---|---|
| **Non-current assets** | | |
| Property, plant and equipment | **301** | 516 |
| Interest in subsidiaries, net | **1,434,125** | 1,904,664 |
| Available-for-sale financial assets | **1,000** | 1,000 |
| | **1,435,426** | 1,906,180 |
| **Current assets** | | |
| Amounts due from subsidiaries, net | **213,944** | 153,321 |
| Other receivables | **35,924** | 35,349 |
| Cash and bank balances | **49,490** | 80,476 |
| | **299,358** | 269,146 |
| **Current liabilities** | | |
| Convertible notes-liability portion, unsecured | **–** | 593,767 |
| Convertible notes-embedded derivatives, unsecured | **–** | 165,285 |
| Other payables | **1,214** | 9,710 |
| | **1,214** | 768,762 |
| **Net current assets (liabilities)** | **298,144** | (499,616) |
| **Total assets less current liabilities** | **1,733,570** | 1,406,564 |
| **Non-current liabilities** | | |
| Bonds | **104,197** | 79,289 |
| Convertible notes-liability portion, unsecured | **376,402** | – |
| Convertible notes-embedded derivatives, unsecured | **193,493** | – |
| | **674,092** | 79,289 |
| **Net assets** | **1,059,478** | 1,327,275 |
| **Capital and reserves** | | |
| Share capital | **1,831,702** | 1,552,433 |
| Reserves *(Note)* | **(772,224)** | (225,158) |
| **Total equity** | **1,059,478** | 1,327,275 |

The Company's statement of financial position was approved and authorised for issue by the board of directors on 23 March 2016 and are signed on its behalf by:

**Ms. Tsang Ching Man,** *DIRECTOR*

**Mr. Tam Tak Wah,** *DIRECTOR*

## 35. 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:*

| | Share premium<br>*HK$'000*<br>*(note 36(a))* | Capital redemption reserve<br>*HK$'000*<br>*(note 36(a))* | Special capital reserve<br>*HK$'000*<br>*(note 36(b))* | Warrant reserve<br>*HK$'000* | Accumulated losses<br>*HK$'000* | Total<br>*HK$'000* |
|---|---|---|---|---|---|---|
| At 1 January 2014 | 1,413,455 | 5,318 | 579,799 | 21,007 | (633,489) | 1,386,090 |
| Loss and total comprehensive expenses for the year | – | – | – | – | (171,468) | (171,468) |
| Issue of shares upon exercise of warrants | 6,044 | – | – | (12,879) | – | (6,835) |
| Transition to no-par value regime | (1,419,499) | (5,318) | – | – | – | (1,424,817) |
| Transfer upon expiration of warrants | – | – | – | (8,128) | – | (8,128) |
| At 31 December 2014 and 1 January 2015 | – | – | 579,799 | – | (804,957) | (225,158) |
| Loss and total comprehensive expenses for the year | – | – | – | – | (547,066) | (547,066) |
| At 31 December 2015 | – | – | 579,799 | – | (1,352,023) | (772,224) |

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 2015 and 2014.

## 36. RESERVES

### (a) Share premium and capital redemption reserve

The application of the share premium account and the capital redemption reserve is governed by sections 48B and 49H respectively of the predecessor Hong Kong Companies Ordinance (Cap. 32).

In accordance with the transitional provisions set out in section 37 of Schedule 11 to the Hong Kong Companies Ordinance (Cap. 622), on 3 March 2014, the amount standing to the credit of the share premium account of HK$1,419,499,000 and the capital redemption reserve of HK$5,318,000 has become part of the Company's share capital.

### (b) 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, has 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).

### (c) Other capital reserve

This other capital reserve represents negative goodwill on the acquisition of an associated company in 2000.

### (d) 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(g) to the consolidated financial statements.

### (e) Distributable reserves

As at 31 December 2015, 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 (2014: Nil).

## 37. EVENTS AFTER THE REPORTING PERIOD

On 11 March 2016, the Company and Ever-Long Securities Company Limited ("Ever-Long") entered into the placing agreement, pursuant to which Ever-Long agreed to act as a placing agent, on a best effort basis, for the purposes of procuring the placees to subscribe for the bonds in an aggregate principal amount of up to HK$200,000,000 during the placing period, commencing from the date of placing agreement and ending on the date falling six months after the date of placing agreement, or such other period as may be agreed between the Company and Ever-Long in writing.

## 38. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to the current year's presentation.

# FINANCIAL SUMMARY

| | Year ended 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | ***HK$'000*** | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| **Results** | | | | | |
| Revenue | **58,229** | 130,628 | 97,857 | 37,694 | 36,375 |
| Loss before tax | **(545,727)** | (223,185) | (453,906) | (257,302) | (565,104) |
| Income tax | **121,270** | 26,085 | 100,120 | 54,345 | 136,616 |
| Loss for the year from continuing operations | **(424,457)** | (197,100) | (353,786) | (202,957) | (428,488) |
| Profit for the year from discontinued operations, net | **–** | – | – | – | 34,419 |
| Loss for the year | **(424,457)** | (197,100) | (353,786) | (202,957) | (394,069) |
| Other comprehensive (expenses) income for the year | **(89,845)** | (10,083) | 65,938 | 14,163 | 66,161 |
| Total comprehensive expenses for the year | **(514,302)** | (207,183) | (287,848) | (188,794) | (327,908) |
| Loss for the year attributable to: | | | | | |
| Owners of the Company | **(423,744)** | (196,428) | (353,176) | (202,223) | (393,397) |
| Non-controlling interests | **(713)** | (672) | (610) | (734) | (672) |
| | **(424,457)** | (197,100) | (353,786) | (202,957) | (394,069) |

| | At 31 December | | | | |
|---|---|---|---|---|---|
| | **2015** | 2014 | 2013 | 2012 | 2011 |
| | **HK$'000** | HK$'000 | HK$'000 | HK$'000 | HK$'000 |
| **Assets and liabilities** | | | | | |
| Total assets | **2,331,655** | 2,885,729 | 2,922,046 | 3,255,368 | 3,550,543 |
| Total liabilities | **(1,225,264)** | (1,544,305) | (1,412,503) | (1,501,787) | (1,608,168) |
| Total equity | **1,106,391** | 1,341,424 | 1,509,543 | 1,753,581 | 1,942,375 |
| Non-controlling interests | **3,874** | 3,161 | 2,489 | 1,879 | 1,145 |
| Equity attributable to owners of the Company | **1,110,265** | 1,344,585 | 1,512,032 | 1,755,460 | 1,943,520 |