INTERNATIONAL
STANDARD
RESOURCES
標 準 資 源

INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

CORPORATE INFORMATION

DIRECTORS

Executive Directors
Cheng Wai Keung
Tam Tak Wah
Tsang Ching Man

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

CHIEF EXECUTIVE OFFICER
Lyu Guoping

AUTHORISED REPRESENTATIVES
Tam Tak Wah
Tsang Ching Man

COMPANY SECRETARY
Tsang Ching Man

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

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

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

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

LEGAL ADVISERS
Lau Kwong & Hung, Solicitors
TC & Co., Solicitors

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

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

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

LISTING EXCHANGE
The Stock Exchange of Hong Kong Limited
Stock code: 91

COMPANY WEBSITE
www.intl-standardresources.com

The Board of Directors (the "**Board**" or "**Directors**") of International Standard Resources Holdings Limited (the "**Company**") hereby present the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2018 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the Period was HK$5,383,000 (2017: HK$10,448,000), representing a decrease of 48.48%. Such decrease of revenue was mainly due to the continuous decrease of contribution from the electronic components business which resulted from the slowdown of retail market as a whole. The revenue generated by the sale of electronic components decreased by 49.22% from HK$9,461,000 in 2017 to HK$4,804,000 in 2018, representing 89.25% of the Group's revenue. The coalbed methane exploration and exploitation operating subsidiary and the treasury segment contributed HK$532,000 (2017: HK$733,000) and HK$47,000 (2017: HK$254,000) to the Group in 2018, representing 9.88% and 0.87% of the Group's revenue respectively. The Group recorded a gross profit of HK$534,000 in 2018, a decrease from HK$1,104,000 in 2017, which resulted from the decreased contribution from the treasury segment, i.e. the money lending businesses, with a comparatively higher profit margin.

The Group's loss for the Period was HK$71,558,000 (2017: profit of HK$6,369,000). Substantial part of Group's performance was mainly due to the accounting treatments of various items, such as amortisation of the production sharing contract amounted to HK$26,606,000 (2017: HK$31,707,000), fair value gain on convertible notes' embedded derivatives amounted to HK$1,336,000 (2017: HK$77,972,000), imputed interest on convertible notes amounted to HK$18,526,000 (2017: HK$19,781,000), imputed interest on bonds amounted to HK$2,605,000 (2017: HK$7,606,000), imputed interest on promissory notes amounted to HK$188,000 (2017: Nil), net loss on revaluation of financial assets at fair value through profit or loss amounted to HK$5,654,000 (2017: net gain of HK$387,000), net foreign exchange loss amounted to HK$2,823,000 (2017: net gain of HK$5,674,000) and the deferred tax credit amounted to HK$7,652,000 (2017: HK$7,986,000). The aggregate net result of the abovementioned accounting profits and losses for 2018 was loss of HK$47,414,000 (2017: profit of HK$27,881,000). The accounting profits and losses mentioned above did not have actual impact on the cashflow position of the Group.

For comparison purpose, the loss after tax for 2018 and 2017, if excluding those accounting profits and losses, was HK$24,144,000 and HK$21,512,000 respectively.

The Group recorded a loss attributable to owners of the Company of approximately HK$71,419,000 (2017: profit of HK$6,391,000), and basic and diluted loss per share was approximately HK14.91 cents (2017: basic earnings per share of HK1.58 cents and diluted loss per share of HK6.46 cents (as restated)). The Directors do not recommend the payment of a dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2018, the Group had current assets of HK$38,086,000 (31 December 2017: HK$77,802,000) and current liabilities of HK$425,372,000 (31 December 2017: HK$426,591,000) and cash and bank balances of HK$8,486,000 (31 December 2017: HK$34,967,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 8.95% (31 December 2017: 18.24%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 44.05% (31 December 2017: 38.77%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position, less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

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

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

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

BONUS WARRANTS

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

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

On 2 February 2018, the Company entered into the convertible notes restructuring agreement with New Alexander Limited (the "**Noteholder**"), pursuant to which the Noteholder agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due 31 December 2018. Upon completion of the stipulated conditions precedent to the said convertible notes restructuring agreement, new convertible notes due 31 December 2021 would be issued for the settlement of the existing convertible notes.

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

On 24 August 2018, the Company entered into another convertible notes restructuring agreement with the Noteholder, pursuant to which the Noteholder agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due 31 December 2018 (the "**Convertible Notes Restructuring Agreement**"). Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, new convertible notes due 31 December 2021 will be issued for the settlement of the existing convertible notes. The restructuring of the convertible notes is subject to the shareholder's approval at an extraordinary general meeting to be held.

SHARE CONSOLIDATION

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

COMMITMENTS

Details of the commitments of the Group are set out in note 23 to the condensed consolidated financial statements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENCIES

Save as disclosed in note 24 to the condensed consolidated financial statements, the Group had no other contingencies as at 30 June 2018.

LITIGATION

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

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

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

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

CHARGED ON ASSETS

The short-term bank deposits, amounted to approximately HK$180,000, have been pledged as securities for banking facilities granted to the Group as at 30 June 2018. Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of HK$18,113,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 30 June 2018.

EVENT AFTER THE REPORTING PERIOD

Save as disclosed in note 27 to the condensed consolidated financial statements, the Group had no other material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2018, the Group had 60 employees, of which 17 were in Hong Kong and 43 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, mandatory provident fund schemes for employees in Hong Kong and the state-managed employee pension schemes for employees in the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the Period.

BUSINESS REVIEW

During the Period, the Group was mainly engaged in coalbed methane ("**CBM**") exploration and production in the PRC, electronic components trading and treasury businesses. Though revenue generated from electronic components trading accounted for about 89.25% of the Group's total revenue for the Period, the Group will continue to focus and put resources on CBM exploration and production business.

Coalbed Methane Business

The Group explores, develops and produces CBM in Anhui Province with a total exploration area of 567.843 square kilometres. As at 30 June 2018, the CBM operation was still in exploration stage, a total of 42 exploration wells were drilled and 7 of which have been put into production, as such there were only marginal contributions from the CBM business for the Period. Total revenue generated from the CBM business was HK$532,000 (2017: HK$733,000), despite the fact that there is a fair value gain on the embedded derivative portion of the convertible notes of HK$1,336,000 (2017: HK$77,972,000), a loss of HK$56,825,000 (2017: profit of HK$15,050,000) was recorded mainly due to the amortisation of production sharing contract (the "**PSC**") of HK$26,606,000 (2017: HK$31,707,000) and the imputed interest on convertible notes of HK$18,526,000 (2017: HK$19,781,000).

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

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

Area A

Following the completion of exploration work which led to the gathering of 3.158 billion cubic metres of underground proven reserves for the first time, Can-Elite has prepared the "Analysis Report for the Comprehensive Development Proposal, Development Prospect and Business Value of the Coalbed Methane Collaborative Blocks in Luling District of Suzhou, Anhui Province" based on three years' extraction test data, which established the fundamental details for the future development objectives, targets, phases, investments and commercial prospects of the Luling Gas Field Project. Currently, Area A has comprehensively proceeded into the trial-development phase and three trial-development works ranging from underground to surface have simultaneously commenced. First is the drilling of the trial high capacity horizontal wells. The drilling for a new set of staged fracturing horizontal wells in coal seam roof had begun in March this year. The drilling of two vertical wells on the two ends has been completed while drilling of the horizontal section is undergoing amid issues such as unstable strata. Second is to focus on the commencement of collection, handling and sale of CBM generated from ground wells. The Group, through its wholly-owned subsidiary, has incorporated Can-Elite Coalbed Gas (Anhui) Co ("**Can-Elite (Anhui)**") at the Economic Development District of Suzhou and it is constructing surface pipelines to connect existing production wells with the horizontal wells. Meanwhile, the existing set of compression devices is undergoing modifications and upgrades with a view to commence compression and sale of gas produced as soon as possible. Third is to advance preparation of "Overall Development Proposal for the Luling Gas Field", with an aim to complete the preparation by the end of 2019 to submit to the relevant authorities of the PRC government for review and filing.

Area B

A 2D seismic survey was undertaken which covered a total of 81 kilometres and 21 drilled wells. As a requirement for preparing the reserves report, drillings were performed in Area B by phases, and each group of drilled wells has undergone multi-layer drainage and extraction testing, secondary fracturing transformation process, drainage and extraction observation and evaluation analysis process, which enabled the capture of some test data. Based on the drilling evaluations in 2017 and before, experts assessed that the southern part of Su'nan is a relatively favourable development area, which could be given priority to explore to record proven reserves and commence development. However, the assessment also believed that it still falls below the reserve standard to a certain extent which means necessary supplementary exploration are required. Consequently, a supplementary exploration plan will be formulated and implemented as the circumstances may require and hopefully there will be an exploration breakthrough for Area B.

Treasury Business

The treasury business includes securities trading and money lending business.

The Group adopts a prudent approach for all its investments with the view for short to medium term profit. At 30 June 2018, the Group held an investment portfolio of listed securities in Hong Kong with an aggregate amount of approximately HK$21,745,000. During the Period, the Group recorded an unrealised loss of approximately HK$5,654,000. The unrealised loss was attributable to the Group's investments in Styland Holdings Limited ("**STYLAND**"). Details of the investments in STYLAND are as follows:

	Six months ended 30 June 2018		At 30 June 2018			At 31 December 2017
	Fair value loss *HK$'000*	Approximate percentage of fair value loss on held-for-trading investments	Market value *HK$'000*	Approximate percentage of held-for-trading investments	Approximate percentage to the net assets	Market value *HK$000*
STYLAND						
– shares	5,654	100%	21,745	100%	4.16%	27,399
– warrants	–	–	–	–	–	482
TOTAL	5,654	100%	21,745	100%	4.16%	27,881

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

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

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

During the Period, revenue generated from this segment (i.e. interest income) decreased to approximately HK$47,000 from HK$254,000 in 2017.

Electronic Components Business

The Group continued to be affected by the weak global demand dragged on the consumables market, as a result, revenue generated from the electronic components segment dropped substantially to HK$4,804,000, which represent a 49.22% decrease as compared to the corresponding period in 2017. The Group will regularly review the range of products distributed to confront with the increasingly difficult business environment so as to generate stable revenue and return. However, it shall be expected that the situation will not be improved in the short run.

PROSPECTS

CBM is a quality, clean and efficient natural gas resource stored in coal seams. With the exploitation and utilisation plan of CBM become crystallised, it has strengthened the prevention on coal mine accidents and reduced air pollution. It also helped alleviate the problem of energy shortage and secured the provision of clean energy, as such the government has been paying more attention to CBM businesses.

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

Pursuant to the "Thirteenth Five-Year Plan on Oil and Natural Gas Development" promulgated by the National Development and Reform Commission of the PRC, the Beijing-Tianjin-Hebei region, Yangtze River Delta, Pearl River Delta and the northeast region were to be the key regions to push forward the "coal-to-gas" conversion projects in key cities, expand the zone of prohibition in the use of high polluting fuel in the cities, and promote vigorously the replacement with natural gas.

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

It is necessary to point out that the year 2018 has been filled with unpredictable, complicated and ever-changing international drama. Xi Jinping, President of the PRC, has given a high priority instruction to enhance the exploration, development and production efforts of national oil and natural gas in order to ensure national energy security. As a result, every major energy corporation in the PRC has been ramping up their planning efforts as well as the exploration and production operation of oil and gas, which provides a new and unique development opportunity for upstream energy industries such as CBM.

The Group's CBM contract area in Anhui Province is located at developed areas in the eastern and coastal regions of the PRC, representing a prominent market advantage. To date, it is the only company engaging in the exploration and development of CBM (unconventional gas) in Anhui Province. After almost 10 years of exploration, it is now at the turning point from completing the exploration to gradual commercial development. Can-Elite shall seize the important opportunity presented by the state and local development in natural gas industry, and strive to expand and strengthen the CBM projects in Huaibei. Especially after the gas shortage during the winter of 2017, local governments are desperate to achieve acceleration in gas production in Su'nan Block as soon as possible. First of all, the Group will make preparation for the development of and run tests in Area A, as well as the preparation for collection and sale of gas on the surface. Tests would be performed on multiple group of hydraulic fracturing wells and construction of pipeline network, storage, transmission and compression pipes in wells would be completed, with an aim to achieve a breakthrough in the trial production and sale of CBM shortly. Secondly, the Group will commence preparation of the ODP for Area A. Thirdly, regarding the favourable area in southern part of Su'nan, the Group will complete supplemental follow-up works on exploration and gas testing, satisfy the reporting conditions for proven reserves, prepare the reserves report and obtain approval on additional proven reserves as soon as possible. Fourthly, the Group will explore business ideas and initiate various forms of cooperation projects with construction subcontractors or stakeholders, to mitigate the risk and pressure of project investments and achieve a win-win cooperation to obtain greater business benefits.

The China-United States trade war since 2018 has affected the economies of multiple countries and increased the instability over global recovery. It is expected that the recovery would meet increasing interferences and difficulties, which would generate many uncertainties in the external environment. The Group will monitor the economic environment closely and review its existing businesses from time to time. The development of the CBM business in the PRC in particular will be pragmatically adjusted according to circumstances in order to bring greater benefits to the Group and the shareholders.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

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

As at 30 June 2018, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in shares of the Company

Name of Director/ Chief Executive	Nature of interest	Number of shares *(note)*	Number of underlying shares *(note)*	Percentage
Albert Saychuan Cheok	Beneficial	618,750	–	0.01%
Lyu Guoping	Beneficial	250,000	–	0.01%

Note: Number of shares or underlying shares held by the Director and chief executive of the Company is not adjusted for the effect of the share consolidation after the reporting period.

Save as disclosed above, as at 30 June 2018, none of the Directors and chief executives of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

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

As at 30 June 2018, the interests and short positions of the substantial shareholders (other than the Directors and chief executives of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be kept in the register under section 336 of the SFO were as follows:

Name	**Nature of interest**	**Number of shares** *(note 5)*	**Number of underlying shares** *(note 5)*	**Percentage**
Che Weng Kei *(note 1)*	Beneficial/ Corporate	1,010,056,250	–	21.08%
Good Max Holdings Limited *(note 2)*	Beneficial	293,558,750	–	6.13%
Leung Yuk Kit *(note 2)*	Corporate	293,558,750	–	6.13%
New Alexander Limited *(note 3)*	Beneficial	–	2,147,058,823	44.81%
Styland Holdings Limited *(note 4)*	Corporate	563,187,440	–	11.75%
Styland (International) Limited *(note 4)*	Beneficial	346,609,940	–	7.23%

Notes:

(1) Included 903,181,250 shares held by Che Weng Kei through a wholly-owned company, Fully Interest Limited.

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

(3) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2018 in an aggregate outstanding principal amount of HK$365,000,000 as at 30 June 2018.

(4) Included 346,609,940 shares held through its wholly-owned subsidiary, Styland (International) Limited; and 216,577,500 shares held through its non-wholly-owned subsidiary, Brighten Management Limited.

(5) Number of shares or underlying shares held by the substantial shareholders is not adjusted for the effect of the share consolidation after the reporting period.

Save as disclosed above, as at 30 June 2018, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE

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

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

Under the code provision A.4.1, non-executive directors should be appointed for a specific term, subject to re-election. None of the existing independent non-executive directors (the "**INEDs**") of the Company is appointed for a specific term. This constitutes a deviation from the code provision A.4.1. However, more than one-third of the directors (including executive and non-executive) are subject to retirement by rotation at each annual general meeting under the articles of association of the Company. As such, the Company considers that sufficient measures have been taken to ensure that the corporate governance practices of the Company are no less exacting than those in the CG Code.

Attendance of non-executive directors at general meetings (Deviation from Code Provision A.6.7)

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

Due to personal commitment, Mr. Wang Li, an INED, did not attend the annual general meeting of the Company held on 6 June 2018, which constitutes a deviation from the code provision A.6.7 during the Period. However, at the respective general meetings of the Company, there were executive directors and INEDs present to enable the Board to develop a balanced understanding of the views of the shareholders.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on exactly the terms and required standard contained in the Model Code as set out in Appendix 10 to the Listing Rules. Before the Group's interim results are announced, notifications are sent to the Directors to remind them not to deal in the securities of the Company during the blackout periods. Having made specific enquiry of all the Directors, they confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions throughout the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

SHARE OPTION SCHEME

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

The exercise price of the share options is determinable by the Board, that it shall be at least the higher of (i) the closing price of the shares of the Company on the Stock Exchange on the date of grant of share options; and (ii) the average closing price of the shares of the Company on the Stock Exchange 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 the amount equivalent to 10% of the number of shares of the Company in issue as at 7 June 2017. This limit can further be refreshed by the shareholders in a general meeting in accordance with the provisions of the Listing Rules. The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any twelve-month period is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

There were no share options granted and exercised during the six months ended 30 June 2018. There were no share options outstanding as at 30 June 2018.

As at 30 June 2018, the total number of shares available for issue under the Scheme is 47,907,934 shares, being 10% of the number of shares in issue on 7 June 2017 and adjusted for the effect of share consolidation after the reporting period, representing approximately 10% of the number of shares of the Company in issue.

REVIEW OF INTERIM RESULTS

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

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

ACKNOWLEDGEMENT

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

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

Hong Kong, 27 August 2018

REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

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

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

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

INTRODUCTION

We have reviewed the condensed consolidated financial statements of International Standard Resources Holdings Limited (the "**Company**") and its subsidiaries (collectively referred to as the "**Group**") set out on pages 20 to 64, which comprise the consolidated statement of financial position as at 30 June 2018 and the related consolidated statement of profit or loss, consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and condensed consolidated statement of cash flows for the six months period then ended, and certain explanatory notes. The Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("**HKAS 34**") issued by the Hong Kong Institute of Certified Public Accountants ("**HKICPA**"). The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

SCOPE OF REVIEW

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

CONCLUSION

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

EMPHASIS OF MATTER

The accompanying condensed consolidated financial statements for the six months ended 30 June 2018 have been prepared assuming that the Group will continue as a going concern. Without qualifying our review conclusion, we draw attention to note 1 to the condensed consolidated financial statements which indicated that the Group incurred a net loss of approximately HK$71,558,000 for the six months ended 30 June 2018, and as of that date, the Group recorded net current liabilities of approximately HK$387,286,000. These conditions, along with other matters as set forth in note 1 to the condensed consolidated financial statements, indicate the existence of a material uncertainty which may cast significant doubt on the Company's ability to continue as a going concern.

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

27 August 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2018

		Unaudited Six months ended	
		30 June 2018	30 June 2017
	Notes	***HK$'000***	*HK$'000*
Revenue	3	**5,383**	10,448
Cost of sales		**(4,849)**	(9,344)
Gross profit		**534**	1,104
Other income		**606**	823
Other gains and losses	4	**(7,821)**	80,662
Administrative expenses		**(24,540)**	(24,890)
Amortisation of production sharing contract		**(26,606)**	(31,707)
(Loss) profit from operations		**(57,827)**	25,992
Finance costs	5	**(21,319)**	(27,387)
Loss before tax	6	**(79,146)**	(1,395)
Income tax	7	**7,588**	7,764
(Loss) profit for the period		**(71,558)**	6,369
Attributable to:			
Owners of the Company		**(71,419)**	6,391
Non-controlling interests		**(139)**	(22)
		(71,558)	6,369
			(Restated)
(Loss) earnings per share	9		
Basic (HK cents per share)		**(14.91)**	1.58
Diluted (HK cents per share)		**(14.91)**	(6.46)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2018

	Unaudited Six months ended 30 June 2018 HK$'000	30 June 2017 HK$'000
(Loss) profit for the period	**(71,558)**	6,369
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(7,579)**	28,260
Other comprehensive (expense) income for the period, net of income tax	**(7,579)**	28,260
Total comprehensive (expenses) income for the period	**(79,137)**	34,629
Attributable to:		
Owners of the Company	**(78,998)**	34,651
Non-controlling interests	**(139)**	(22)
	(79,137)	34,629

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2018

	Notes	**Unaudited 30 June 2018 *HK$'000***	Audited 31 December 2017 *HK$'000*
Non-current assets			
Property, plant and equipment	10	**101,997**	99,208
Intangible assets	11	**1,046,106**	1,085,886
Other receivables	14	**85,000**	85,000
Available-for-sale financial assets		**–**	1,000
Financial assets at fair value through profit or loss	12	**1,000**	–
		1,234,103	1,271,094
Current assets			
Loan receivables	13	**–**	5,510
Financial assets at fair value through profit or loss	12	**21,745**	29,599
Trade and other receivables	14	**3,637**	3,452
Pledged bank deposits		**180**	180
Cash and cash equivalents		**8,306**	34,787
		33,868	73,528
Asset classified as held for sale		**4,218**	4,274
		38,086	77,802

CONSOLIDATED STATEMENT OF FINANCIAL POSITION *(Continued)*

At 30 June 2018

	Notes	**Unaudited 30 June 2018 *HK$'000***	Audited 31 December 2017 *HK$'000*
Current liabilities			
Other borrowing, unsecured	15	**11,728**	11,814
Trade and other payables	16	**65,664**	56,387
Bonds	17	**–**	23,919
Convertible notes – liability portion, unsecured	18	**344,240**	329,394
Convertible notes – embedded derivatives, unsecured	18	**–**	1,336
Tax payables		**3,740**	3,741
		425,372	426,591
Net current liabilities		**(387,286)**	(348,789)
Total assets less current liabilities		**846,817**	922,305
Non-current liabilities			
Bonds	17	**50,689**	49,879
Deferred tax liabilities	19	**259,255**	270,199
Promissory notes	20	**13,688**	–
		323,632	320,078
Net assets		**523,185**	602,227
Capital and reserves			
Share capital	21	**2,032,322**	2,032,227
Reserves		**(1,504,803)**	(1,425,805)
Equity attributable to owners of the Company		**527,519**	606,422
Non-controlling interests		**(4,334)**	(4,195)
Total equity		**523,185**	602,227

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2018

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY *(Continued)*

For the six months ended 30 June 2018

	Attributable to the owners of the Company						
	Share capital *HK$'000*	Special capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2018 (Audited)	2,032,227	579,799	179,575	(2,185,179)	606,422	(4,195)	602,227
Loss for the period	–	–	–	(71,419)	(71,419)	(139)	(71,558)
Other comprehensive expense for the period	–	–	(7,579)	–	(7,579)	–	(7,579)
Total comprehensive expenses for the period	–	–	(7,579)	(71,419)	(78,998)	(139)	(79,137)
Issue of shares upon exercise of warrants	95	–	–	–	95	–	95
At 30 June 2018 (Unaudited)	2,032,322	579,799	171,996	(2,256,598)	527,519	(4,334)	523,185

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2018

	Unaudited Six months ended	
	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
Operating activities		
Cash (used in) generated from operations	**(4,400)**	12,646
Income tax paid	**(65)**	(37)
Interest received	**79**	243
Net cash (used in) generated from operating activities	**(4,386)**	12,852
Investing activities		
Purchase of property, plant and equipment	**(10,054)**	(14,120)
Dividend received	**261**	272
Proceeds from disposal of property, plant and equipment	**11**	–
Net cash used in investing activities	**(9,782)**	(13,848)
Financing activities		
Proceeds from issue of new shares under rights issue, net of share issue expenses	**–**	137,972
Proceeds from issue of shares upon exercise of warrants	**95**	3
Proceeds from issue of bonds	**–**	4,450
Proceeds from issue of promissory notes	**13,500**	–
Proceeds from (repayment for) other borrowing	**71**	(179)
Interest paid	**(5,394)**	(7,017)
Payment for redemption of convertible notes	**–**	(114,660)
Repayment for bonds	**(24,000)**	–
Net cash (used in) generated from financing activities	**(15,728)**	20,569

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 June 2018

	Unaudited	
	Six months ended	
	30 June 2018	30 June 2017
	HK$'000	*HK$'000*
Net (decrease) increase in cash and cash equivalents	**(29,896)**	19,573
Cash and cash equivalents at beginning of period	**34,787**	142,335
Effect of foreign exchange rate changes	**3,415**	(5,288)
Cash and cash equivalents at end of period	**8,306**	156,620

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2018

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). It was authorised for issue on 27 August 2018.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2017 annual financial statements, except for the accounting policy changes that become effective for the 2018 annual financial statements. Details of any changes in accounting policies are set out in note 2 to the condensed consolidated financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant for the understanding of the changes in financial position and performance of the Group since the 2017 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

Going Concern

The Group incurred a loss of approximately HK$71,558,000 for the six months ended 30 June 2018 and as of that date, the Company recorded net current liabilities of approximately HK$387,286,000. The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration of the followings:

(i) An independent licensed money lending company has granted loan facilities of HK$50,000,000 to the Group and undertaken to provide adequate funds to enable the Group to meet its liabilities and to pay financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving the condensed consolidated financial statements;

(ii) The Company has entered into a convertible notes restructuring agreement on 24 August 2018 with New Alexander Limited, pursuant to which the noteholder has agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due on 31 December 2018. The noteholder has undertaken that repayment for the convertible notes will not be demanded within one year from the date of this interim report;

1. BASIS OF PREPARATION *(Continued)*

Going Concern (Continued)

(iii) On 13 July 2017 and 8 February 2018, a wholly-owned subsidiary of the Company entered into a property sale and purchase agreement and supplemental agreement with an independent third party to dispose of a property in Beijing. The disposal of the property will be completed on fulfilment of certain conditions. The directors of the Company consider the net proceeds from the disposal of the property of approximately RMB9,780,000 (equivalent to approximately HK$11,595,000) will be received within one year from the date of this interim report; and

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

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

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

The financial information relating to the year ended 31 December 2017 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to the statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2017 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

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

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of the new and revised HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2018 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 31 December 2017.

In the current interim period, the Group has applied, for the first time, the following new and revised HKFRSs issued by the HKICPA, which are mandatory effective for the annual period beginning on or after 1 January 2018 for the preparation of the Group's condensed consolidated financial statements:

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

The new and revised HKFRSs have been applied in accordance with the relevant transition provisions in the respective standards and amendments which results in changes in accounting policies, amounts reported and/or disclosures as described below.

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

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

The Group recognised revenue from the following major sources:

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 15

HKFRS 15 introduces a 5-step approach when recognising revenue:

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the entity satisfies a performance obligation

Under HKFRS 15, the Group recognises revenue when (or as) a performance obligation is satisfied, i.e. when "control" of the goods or services underlying the particular performance obligation is transferred to the customer.

A performance obligation represents a goods and service (or a bundle of goods or services) that is distinct or a series of distinct goods or services that are substantially the same.

Control is transferred over time and revenue is recognised over time by reference to the progress towards complete satisfaction of the relevant performance obligation if one of the following criteria is met:

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;

- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or

- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

Otherwise, revenue is recognised at a point in time when the customer obtains control of the distinct good or service.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 15 *(Continued)*

A contract asset represents the Group's right to consideration in exchange for goods or services that the Group has transferred to a customer that is not yet unconditional. It is assessed for impairment in accordance with HKFRS 9. In contrast, a receivable represents the Group's unconditional right to consideration, i.e. only the passage of time is required before payment of that consideration is due.

A contract liability represents the Group's obligation to transfer goods or services to a customer for which the Group has received consideration (or an amount of consideration is due) from the customer.

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

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

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

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

Trade receivables arising from contracts with customers are initially measured in accordance with HKFRS 15.

All recognised financial assets that are within the scope of HKFRS 9 are subsequently measured at amortised cost or fair value.

Debt instruments that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Debt instruments that meet the following conditions are subsequently measured at fair value through other comprehensive income ("FVTOCI"):

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and
- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at fair value through profit or loss ("FVTPL").

In addition, the Group may irrevocably designate a debt investment that meets the amortised cost or FVTOCI criteria as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Classification and measurement of financial assets *(Continued)*

Financial assets at FVTPL

Financial assets that do not meet the criteria for being measured at amortised cost or FVTOCI or designated as FVTOCI are measured at FVTPL.

Financial assets at FVTPL are measured at fair value at the end of the reporting period, with any fair value gains or losses 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.

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

Impairment under ECL model

The Group recognises a loss allowance for ECL on financial assets which are subject to impairment under HKFRS 9 (including trade receivables, loan receivables, deposits and bank balances and cash). The amount of ECL is updated at each reporting date to reflect changes in credit risk since initial recognition.

Lifetime ECL represents the ECL that will result from all possible default events over the expected life of the relevant instrument. In contrast, 12-month ECL ("12m ECL") represents the portion of lifetime ECL that is expected to result from default events that are possible within 12 months after the reporting date. Assessment is done based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors, general economic conditions and an assessment of both the current conditions at the reporting date as well as the forecast of future conditions.

The Group always recognises lifetime ECL for trade receivables within the scope of HKFRS 15. The ECL on these assets are assessed individually for debtors with significant balances and/or collectively using a provision matrix with appropriate groupings.

For all other instruments, the Group measures the loss allowance equal to 12m ECL, unless when there has been a significant increase in credit risk since initial recognition, the Group recognises lifetime ECL. The assessment of whether lifetime ECL should be recognised is based on significant increases in the likelihood or risk of a default occurring since initial recognition.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model *(Continued)*

Significant increase in credit risk

In assessing whether the credit risk has increased significantly since initial recognition, the Group compares the risk of a default occurring on the financial instrument as at the reporting date with the risk of a default occurring on the financial instrument as at the date of initial recognition. In making this assessment, the Group considers both quantitative and qualitative information that is reasonable and supportable, including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly:

- an actual or expected significant deterioration in the financial instrument's external (if available) or internal credit rating;

- significant deterioration in external market indicators of credit risk, e.g. a significant increase in the credit spread, the credit default swap prices for the debtor;

- existing or forecast adverse changes in business, financial or economic conditions that are expected to cause a significant decrease in the debtor's ability to meet its debt obligations;

- an actual or expected significant deterioration in the operating results of the debtor;

- an actual or expected significant adverse change in the regulatory, economic, or technological environment of the debtor that results in a significant decrease in the debtor's ability to meet its debt obligations.

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 60 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Impairment under ECL model *(Continued)*

Significant increase in credit risk (Continued)

Despite the aforegoing, the Group assumes that the credit risk on a debt instrument has not increased significantly since initial recognition if the debt instrument is determined to have low credit risk at the reporting date. A debt instrument is determined to have low credit risk if (i) it has a low risk of default, (ii) the borrower has a strong capacity to meet its contractual cash flow obligations in the near term and (iii) adverse changes in economic and business conditions in the longer term may, but will not necessarily, reduce the ability of the borrower to fulfil its contractual cash flow obligations. The Group considers a debt instrument to have low credit risk when it has an internal or external credit rating of 'investment grade' as per globally understood definitions.

The Group considers that default has occurred when the instrument is more than 90 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information.

Generally, the ECL is estimated as the difference between all contractual cash flows that are due to the Group in accordance with the contract and all the cash flows that the Group expects to receive, discounted at the effective interest rate determined at initial recognition.

Interest income is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit impaired, in which case interest income is calculated based on amortised cost of the financial asset.

The Group recognises an impairment gains or losses in profit or loss for all financial instruments by adjusting their carrying amount, with the exception of trade receivables where the corresponding adjustment is recognised through an allowance for doubtful debts account.

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Key changes in accounting policies resulting from application of HKFRS 9 *(Continued)*

Classification and measurement of financial liabilities

For financial liabilities that are designated as at FVTPL, 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 recognised in other comprehensive income ("OCI"), unless the recognition of the effects of changes in the liability's credit risk in OCI would create or enlarge an accounting mismatch in profit or loss. The remaining amount of change in the fair value of liability is recognised in profit or loss. Changes in fair value attributable to a financial liability's credit risk that are recognised in OCI are not subsequently reclassified to profit or loss; instead, they are transferred to retained profits upon derecognition of the financial liability.

For non-substantial modifications of financial liabilities that do not result in derecognition, the carrying amount of the relevant financial liabilities will be calculated at the present value of the modified contractual cash flows discounted at the financial liabilities' original effective interest rate. Transaction costs or fees incurred are adjusted to the carrying amount of the modified financial liabilities and are amortised over the remaining term. Any adjustment to the carrying amount of the financial liability is recognised in profit or loss at the date of modification.

Summary of effects arising from initial application of HKFRS 9

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

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

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

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

Summary of effects arising from initial application of HKFRS 9 *(Continued)*

Notes:

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

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

(b) Impairment under ECL model

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

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

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

New and revised HKFRSs issued but not yet effective

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

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

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

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

[3] Effective date to be determined.

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

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

	Unaudited Six months ended 30 June 2018 HK$'000	30 June 2017 HK$'000
Sale of electronic components	**4,804**	9,461
Sale of coalbed methane products	**532**	733
Interest income from money lending	**47**	254
	5,383	10,448

(b) Segment information

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

– Electronic components

– Coalbed methane

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

(i) Segment results

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

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

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

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2018 and 2017 are set out below:

Six months ended 30 June 2018 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**4,804**	**532**	**47**	**5,383**
Reportable segment results	**(633)**	**(56,825)**	**(7,024)**	**(64,482)**
Amortisation of production sharing contract	–	26,606	–	26,606
Depreciation	–	5,640	2	5,642
Gain on fair value change of convertible notes – embedded derivatives	–	(1,336)	–	(1,336)
Interest expenses	–	18,526	–	18,526
Loss on disposal of financial assets at fair value through profit or loss	–	–	725	725
Loss on disposal of property, plant and equipment	–	45	–	45
Net loss on revaluation of financial assets at fair value through profit or loss	–	–	5,654	5,654
Other income	–	(269)	(261)	(530)
Reversal of allowance for doubtful debts	(90)	–	–	(90)

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Six months ended 30 June 2017 (Unaudited)

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

There were no inter-segment sales for both periods.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment profit or loss

	Unaudited Six months ended 30 June 2018 HK$'000	30 June 2017 HK$'000
Reportable segment (loss) profit	**(64,482)**	16,257
Other income	**76**	238
Other gains and losses	**(2,760)**	879
Unallocated head office and corporate expenses	**(9,187)**	(11,163)
Interest expenses	**(2,793)**	(7,606)
Consolidated loss before tax	**(79,146)**	(1,395)

4. OTHER GAINS AND LOSSES

	Unaudited Six months ended 30 June 2018 HK$'000	30 June 2017 HK$'000
Gain on fair value change of convertible notes – embedded derivatives	**1,336**	77,972
Loss on disposal of property, plant and equipment	**(45)**	–
Loss on redemption of convertible notes	**–**	(5,044)
(Loss) gain on disposal of financial assets at fair value through profit or loss	**(725)**	3,134
Net (loss) gain on revaluation of financial assets at fair value through profit or loss	**(5,654)**	387
Net foreign exchange (loss) gain	**(2,823)**	5,674
Reversal (provision) of allowance for doubtful debts	**90**	(1,461)
	(7,821)	80,662

5. FINANCE COSTS

	Unaudited Six months ended 30 June 2018 HK$'000	30 June 2017 HK$'000
Imputed interest on convertible notes	**18,526**	19,781
Imputed interest on bonds	**2,605**	7,606
Imputed interest on promissory notes	**188**	–
	21,319	27,387

6. LOSS BEFORE TAX

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

	Unaudited Six months ended 30 June 2018 HK$'000	30 June 2017 HK$'000
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**11,602**	11,722
Contributions to defined contribution retirement plans	**993**	989
Total staff costs	**12,595**	12,711
Amortisation of production sharing contract	**26,606**	31,707
Cost of inventories recognised as expenses	**4,849**	9,344
Depreciation of property, plant and equipment	**5,762**	5,989
Loss on disposal of property, plant and equipment	**45**	–
Operating lease charges in respect of land and buildings	**1,335**	1,093
(Reversal) provision of allowance for doubtful debts	**(90)**	1,461
Write-down of inventories	**4**	–

7. INCOME TAX

	Unaudited Six months ended 30 June 2018 *HK$'000*	 30 June 2017 *HK$'000*
Current tax		
PRC Enterprise Income Tax	**64**	45
Hong Kong Profits Tax	**–**	177
	64	222
Deferred tax		
Current period *(note (c))*	**(7,652)**	(7,986)
Income tax credit	**(7,588)**	(7,764)

Notes:

(a) The provision for Hong Kong Profits Tax is calculated at 16.5% (2017: 16.5%) on the estimated assessable profits for the six months ended 30 June 2018.

(b) The Group's subsidiaries in the People's Republic of China (the "PRC") are subject to PRC Enterprise Income Tax rate of 25% (2017: 25%) for the six months ended 30 June 2018.

(c) Deferred tax arising from the reversal of the temporary difference related to revaluation and disposal of financial assets at fair value through profit or loss amounted to HK$1,000,000 (2017: HK$59,000) as referred to in note 12 to the condensed consolidated financial statements; and the reversal of the temporary difference arising from the amortisation of the intangible assets in respect of production sharing contract amounted to HK$6,652,000 (2017: HK$7,927,000) as referred to in note 11 to the condensed consolidated financial statements.

8. DIVIDEND

No dividend was paid, declared or proposed during the interim period (2017: Nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period (2017: Nil).

9. (LOSS) EARNINGS PER SHARE

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

	Unaudited Six months ended 30 June 2018 HK$'000	Unaudited Six months ended 30 June 2017 HK$'000
(Loss) earnings		
(Loss) profit for the purpose of basic (loss) earnings per share		
(Loss) profit for the period attributable to owners of the Company	**(71,419)**	6,391
Effect of dilutive potential ordinary shares:		
Interest on convertible notes	**–**	19,781
Gain on fair value change of convertible notes – embedded derivatives	**–**	(77,972)
Loss on redemption of convertible notes	**–**	5,044
Loss for the purpose of diluted loss per share	**(71,419)**	(46,756)

	30 June 2018	30 June 2017 (Restated)*
Weighted average number of ordinary shares for the purpose of basic and diluted (loss) earnings per share		
Issued ordinary shares at 1 January	**4,790,823,420**	6,387,724,561
Effect of shares issued under rights issue	**–**	829,345,454
Effect of exercise of warrants	**298,562**	1,160
Weighted average number of ordinary shares in issue during the period	**4,791,121,982**	7,217,071,175
Share consolidation effective on 24 February 2017	**–**	(3,193,862,281)
Effect of bonus element on shares issued under rights issue on 28 March 2017	**–**	11,742,141
Share consolidation effective on 26 July 2018	**(4,312,009,784)**	(3,631,455,932)
Weighted average number of ordinary shares for the purpose of basic (loss) earnings per share at 30 June	**479,112,198**	403,495,103
Effect of dilutive potential ordinary shares:		
Convertible notes	**–**	319,870,003
Weighted average number of ordinary shares for the purpose of diluted loss per share at 30 June	**479,112,198**	723,365,106

* Comparative figures for the weighted average number of ordinary shares for the six months ended 30 June 2017 have been adjusted retrospectively for the effect of the share consolidation after the reporting period but before the condensed consolidated financial statements are authorised for issue.

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

Diluted loss per share is calculated by adjusting the weighted average number of ordinary shares outstanding to assume conversion of all dilutive potential ordinary shares. For both periods ended 30 June 2018 and 2017, the Company has two categories of potential ordinary shares: warrants and convertible notes.

No adjustment was made in calculating diluted loss per share for the six months ended 30 June 2018 as the conversion of convertible notes and exercise of warrants would result in decrease in loss per share. Accordingly, the diluted loss per share is the same as the basic loss per share.

For the calculation of diluted loss per share for the six months ended 30 June 2017, the convertible notes are assumed to have been converted into ordinary shares, and the net profit was adjusted to eliminate the related gains/losses and interest expenses stated above for the period, which would result in a decrease in earnings per share for the six months ended 30 June 2017.

The computation of diluted loss per share for the six months ended 30 June 2017 did not assume the exercise of the 2017 Warrants (as defined in note 22 to the condensed consolidated financial statements) because the exercise price of these warrants was higher than the average market price of the Company's shares for the period.

10. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment
	HK$'000
Carrying amount as at 1 January 2017	89,315
Exchange adjustment	6,979
Additions *(note)*	19,379
Depreciation	(12,174)
Transfer to asset classified as held for sale	(4,274)
Written off	(17)
Carrying amount as at 31 December 2017 and 1 January 2018 (Audited)	99,208
Exchange adjustment	(1,447)
Additions *(note)*	10,054
Disposal	(56)
Depreciation	(5,762)
Carrying amount as at 30 June 2018 (Unaudited)	101,997

Note:

During the six months ended 30 June 2018, it includes approximately HK$9,702,000 of construction in progress (31 December 2017: approximately HK$18,186,000) for the CBM business under production sharing contract.

11. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2017	3,686,204
Exchange adjustment	277,760
At 31 December 2017 and 1 January 2018	3,963,964
Exchange adjustment	(51,694)
At 30 June 2018	3,912,270
Accumulated amortisation and impairment	
At 1 January 2017	2,313,372
Charge for the year	64,663
Impairment loss	323,032
Exchange adjustment	177,011
At 31 December 2017 and 1 January 2018	2,878,078
Charge for the period	26,606
Exchange adjustment	(38,520)
At 30 June 2018	2,866,164
Carrying amount	
At 30 June 2018 (Unaudited)	1,046,106
At 31 December 2017 (Audited)	1,085,886

The PSC is amortised on straight-line basis over the remaining contract terms of 20.4 years (2017: 21.4 years) of the PSC.

12. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Non-current		
Club debenture at FVTPL	**1,000**	–
Current		
Listed investments in Hong Kong at FVTPL	**21,745**	29,599

13. LOAN RECEIVABLES

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Treasury business:		
– Secured short-term loans	**–**	5,510

All secured short-term loans, which represented short-term loans advanced to independent third party borrowers with collateral over their properties or vehicles, had been repaid during the period.

14. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Trade receivables *(note (a))*	**16,260**	15,822
Less: Allowance for doubtful debts *(note (b))*	**(14,472)**	(14,562)
	1,788	1,260
Other receivables	**944**	1,084
Other receivable from K&L Gates *(note (c))*	**85,000**	85,000
Deposits and prepayments	**905**	1,108
	86,849	87,192
	88,637	88,452
Analysed for reporting purpose as:		
Non-current assets	**85,000**	85,000
Current assets	**3,637**	3,452
Total	**88,637**	88,452

14. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis of trade receivables

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

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
0-30 days	**1,214**	1,101
31-90 days	**574**	158
91-365 days	**–**	1,081
Over 365 days	**14,472**	13,482
	16,260	15,822
Less: Allowance for doubtful debts	**(14,472)**	(14,562)
	1,788	1,260

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

14. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Allowance for doubtful debts

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

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

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
At 1 January	**14,562**	13,516
(Reversal) provision of allowance for doubtful debts	**(90)**	1,046
	14,472	14,562

At 30 June 2018, the Group's trade receivables of HK$14,472,000 (31 December 2017: HK$14,562,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. The Group does not hold any collateral over the trade receivable balances.

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

(c) Included in other receivables of the Group were aggregate sums of HK$85,000,000 (31 December 2017: 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 24(a) to the condensed consolidated financial statements. Based on the facts and circumstances and legal advice, the directors of the Company are of the opinion that the Group has good prospects of succeeding in its claim to recover the escrow monies in full and the estimated time to recover the escrow sum is expected to be longer than 12 months after the end of the reporting period due to the prolonged legal procedures (particularly taking into consideration the recent re-amended pleadings for statement of claims, discovery process and increased complication in the procedures including the introduction of expert witness). Taking into account the estimated time of recovering this amount and without taking mediation actions, the Group has classified the escrow sums as non-current asset. As recovering this escrow monies is expected to take more than 12 months, the Group has assessed the estimated cash inflow of the escrow monies by using the effective interest method after considering the estimated time of recovery and expected interest claimed. The directors of the Company are of the opinion that basing on legal advice sought and assessment of estimated cash inflow of the escrow monies, no impairment loss is required as at 30 June 2018.

15. OTHER BORROWING, UNSECURED

Other borrowing, relating to the coalbed methane business under the PSC (note 11 to the condensed consolidated financial statements) and payable to an independent third party, is unsecured, interest-free and with no fixed repayment terms.

16. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Trade payables *(note)*	**2,286**	2,053
Other payables	**32,482**	28,093
Deposits received	**6,373**	2,162
Amount due to non-controlling interests of a subsidiary *(note 26)*	**16,101**	15,737
Accrued expenses	**8,422**	8,342
	65,664	56,387

Note:

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

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Current-within 1 month	**995**	1,132
More than 1 month but within 3 months	**1,197**	820
More than 3 months but within 6 months	**39**	15
More than 6 months	**55**	86
	2,286	2,053

17. BONDS

	Unlisted bond ("Bond I") HK$'000 (note (a))	Unlisted bond ("Bond II") HK$'000 (note (b))	Unlisted bond ("Bond III") HK$'000 (note (c))	Unlisted bond ("Bond IV") HK$'000 (note (d))	Total HK$'000
At 1 January 2017	106,949	938	10,901	32,188	150,976
Issue of bonds, net of transaction cost	–	–	–	4,450	4,450
Repayment of bonds	(87,000)	–	–	–	(87,000)
Interest charge	10,460	90	805	3,776	15,131
Less: Interest paid	(6,490)	(70)	(770)	(2,429)	(9,759)
At 31 December 2017 and 1 January 2018 (Audited)	23,919	958	10,936	37,985	73,798
Repayment of bonds	(24,000)	–	–	–	(24,000)
Interest charge	193	46	400	1,966	2,605
Less: Interest paid	(112)	–	(382)	(1,220)	(1,714)
At 30 June 2018 (Unaudited)	–	1,004	10,954	38,731	50,689
Analysed for reporting purpose as:					
At 30 June 2018					
Non-current liabilities	–	1,004	10,954	38,731	50,689
Current liabilities	–	–	–	–	–
Total	–	1,004	10,954	38,731	50,689
At 31 December 2017					
Non-current liabilities	–	958	10,936	37,985	49,879
Current liabilities	23,919	–	–	–	23,919
Total	23,919	958	10,936	37,985	73,798

17. BONDS *(Continued)*

Notes:

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

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

Bond I would mature and be redeemed by the Company on the third anniversary of the date of issue correspondingly. During the period, an aggregate principal amount of HK$24,000,000 were repaid. There were no remaining balance of Bond I as at 30 June 2018.

Imputed interest expenses on Bond I were calculated using effective interest method with an average effective interest rate of 10.02% (2017: 10.02%) per annum.

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

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

Imputed interest expense on Bond II was calculated using effective interest method with an effective interest rate of 9.59% (2017: 9.59%) per annum.

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

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

Imputed interest expenses on Bond III were calculated using effective interest method with an average effective interest rate of 7.38% (2017: 7.38%) per annum.

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

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

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

Imputed interest expenses on Bond IV were calculated using effective interest method with an average effective interest rate of 10.44% (2017: 10.44%) per annum.

18. CONVERTIBLE NOTES, UNSECURED

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

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

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

The conversion price of the Existing Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issue under open offer and bonus issue of warrants. Furthermore, the conversion price of the Existing Convertible Notes was adjusted to HK$0.20 from the close of business on 23 February 2017 and to HK$0.17 on 4 March 2017 upon completion of the share consolidation and the rights issue as detailed in note 21 to the condensed consolidated financial statements respectively. Subsequently, the conversion price of the Existing Convertible Notes was adjusted to HK$1.70 from the close of business on 25 July 2018 upon the completion of the share consolidation as detailed in note 27 to the condensed consolidated financial statements.

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

The following key inputs and data were applied to the binomial lattice model for the derivatives embedded in the Existing Convertible Notes at 30 June 2018 and 31 December 2017.

	At 30/6/2018	At 31/12/2017
Share price	**HK$0.022**	HK$0.037
Conversion price	**HK$0.17**	HK$0.17
Risk-free rate	**1.55%**	1.06%
Expected dividend yield	**Nil**	Nil
Volatility	**74.88%**	84.35%

During the year ended 31 December 2017, Existing Convertible Notes with principal amount of HK$122,000,000 were redeemed.

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

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

Existing Convertible Notes due on 31 December 2018

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal amount of HK$487,000,000) as at 1 January 2017 (Audited)	105,841	403,190	509,031
Imputed interest charged to consolidated statement of profit or loss	–	37,875	37,875
Decrease in fair value credited to consolidated statement of profit or loss	(92,938)	–	(92,938)
Redemption (with principal amount of HK$122,000,000)	(11,567)	(102,538)	(114,105)
Interest paid	–	(9,133)	(9,133)
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 31 December 2017 and 1 January 2018 (Audited)	1,336	329,394	330,730
Imputed interest charged to consolidated statement of profit or loss	–	18,526	18,526
Decrease in fair value credited to consolidated statement of profit or loss	(1,336)	–	(1,336)
Interest paid	–	(3,680)	(3,680)
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 30 June 2018 (Unaudited)	–	344,240	344,240

At 30 June 2018, Existing Convertible Notes with principal amount of HK$365,000,000 remained outstanding.

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

On 24 August 2018, the Company entered into a conditional agreement with the noteholder to restructure the terms of the Existing Convertible Notes issued by the Company ("Convertible Notes Restructuring Agreement"). Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, the Company will issue new convertible notes with principal amount of HK$365,000,000 ("New Convertible Notes") for settlement of the Existing Convertible Notes due on 31 December 2018.

The New Convertible Notes will be convertible into ordinary shares of the Company at initial conversion price of HK$0.16 (subject to adjustments at any time during the period, commencing from the issue date), will bear interest at the coupon rate of 2% per annum and will mature on 31 December 2021. The restructuring of the Existing Convertible Notes is subject to the shareholder's approval at an extraordinary general meeting to be held. At the date of this interim report, the restructuring of convertible notes has not been completed.

19. DEFERRED TAX LIABILITIES

	Fair value adjustments of financial assets at fair value through profit or loss	**Fair value adjustments on PSC arising from the business combination** *(note 11)*	**Total**
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	1,450	343,207	344,657
Credit to consolidated statement of profit or loss	(2,721)	(96,924)	(99,645)
Exchange adjustment	–	25,187	25,187
At 31 December 2017 and 1 January 2018 (Audited)	(1,271)	271,470	270,199
Credit to consolidated statement of profit or loss	(1,000)	(6,652)	(7,652)
Exchange adjustment	–	(3,292)	(3,292)
At 30 June 2018 (Unaudited)	(2,271)	261,526	259,255

Note:

At 30 June 2018, the recognised deferred tax liabilities of PSC represented the tax effect of the fair value adjustments on the business combination completed in 2008.

20. PROMISSORY NOTES

	Promissory Note I *HK$'000* *(note (a))*	Promissory Note II *HK$'000* *(note (b))*	Total *HK$'000*
At 1 January 2018	–	–	–
Issue of promissory notes	6,000	7,500	13,500
Interest charge	181	7	188
At 30 June 2018 (Unaudited)	6,181	7,507	13,688

Notes:

(a) On 14 February 2018, a Promissory Note I with an aggregate principal amount of HK$6,000,000 was issued to an independent third party with an interest rate of 8% per annum payable in one lump sum on the maturity date and will mature on 14 August 2019.

(b) On 27 June 2018, a Promissory Note II with an aggregate principal amount of HK$7,500,000 was issued to an independent third party with an interest rate of 8% per annum payable in one lump sum on the maturity date and will mature on 31 July 2019.

21. SHARE CAPITAL

	Number of ordinary shares	Share capital *HK$'000*
Issued and fully paid:		
At 1 January 2017	6,387,724,561	1,894,252
Share consolidation *(note (a))*	(3,193,862,281)	–
Issue of new shares under rights issue, net of share issue expenses *(note (b))*	1,596,931,140	137,972
Issue of shares upon exercise of warrants	30,000	3
At 31 December 2017 and 1 January 2018 (Audited)	4,790,823,420	2,032,227
Issue of shares upon exercise of warrants	1,022,756	95
At 30 June 2018 (Unaudited)	4,791,846,176	2,032,322

21. SHARE CAPITAL *(Continued)*

Notes:

(a) Share consolidation effective on 24 February 2017

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

(b) Issue of new shares under rights issue

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

(c) Share consolidation effective on 26 July 2018

As disclosed in note 27 to the condensed consolidated financial statements, the Company implemented the share consolidation after the reporting period but before the condensed consolidated financial statements are authorised for issue.

All the new shares issued during the six months ended 30 June 2018 ranked pari passu with the then existing shares in all respects.

22. WARRANTS

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

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

During the period up to 10 May 2018, being the date of expiry of the 2017 Warrants, 1,022,756 ordinary shares were issued for cash at the subscription price of HK$0.093 per share pursuant to the exercise of the 2017 Warrants. There were no 2017 Warrants outstanding as at 30 June 2018 as they had lapsed on 10 May 2018.

23. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2018 not provided for in the condensed consolidated financial statements are as follows:

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Production sharing contract:		
– Contracted but not provided for	**18,380**	23,179

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

(b) Operating lease commitments

At 30 June 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Within 1 year	**1,864**	1,334
After 1 year but within 5 years	**1,323**	351
	3,187	1,685

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

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

(b) Environmental contingencies

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

25. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

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

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

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

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
30 June 2018			
Financial assets			
– Financial assets at fair value through profit or loss *(note 12)*	**21,745**	**–**	**1,000**
Financial liabilities			
– Convertible notes – embedded derivatives, unsecured *(note 18)*	**–**	**–**	**–**

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
31 December 2017			
Financial assets			
– Financial assets at fair value through profit or loss *(note 12)*	29,599	–	–
– Available-for-sale financial assets	–	–	1,000
Financial liabilities			
– Convertible notes – embedded derivatives, unsecured *(note 18)*	–	–	1,336

During the six months ended 30 June 2018, there were no transfers between instruments in Level 1 and Level 2, or transfer into or out of Level 3 (2017: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

25. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

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

Information about Level 1 fair value measurements

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

Information about Level 3 fair value measurements

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is credit spread. The fair value measurement is positively correlated to the credit spread. As at 30 June 2018, the credit spread used in the valuation is 15.05%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the credit spread would not have significant effect on the Group's loss (31 December 2017: increased/decreased the Group's loss by HK$134,000/HK$134,000).

The movements during the period in the balances of the Level 3 fair value measurement for the conversion option embedded in convertible notes are disclosed in note 18 to the condensed consolidated financial statements. Fair value gain on conversion option embedded in convertible notes is credited to the consolidated statement of profit or loss. Of the total gains and losses for the period in the profit or loss, fair value gain of HK$1,336,000 (2017: HK$77,972,000) was related to conversion option embedded in convertible notes for the reporting period. The fair value of the club debentures was estimated by the directors of the Company with reference to the expected value to be realised.

Fair value of the Group's financial assets and financial liabilities that are not measured on a recurring basis

The fair values of trade and other receivables, cash and bank balances, other borrowing and trade and other payables approximate to their carrying amounts.

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

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

26. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation

	Unaudited Six months ended **30 June 2018** *HK$'000*	30 June 2017 *HK$'000*
Salaries, allowance and other benefits in kind	**3,053**	3,239
Discretionary bonus	**158**	240
Retirement scheme contributions	**46**	45
	3,257	3,524

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

	Unaudited 30 June 2018 *HK$'000*	Audited 31 December 2017 *HK$'000*
Amount due to non-controlling interests of a subsidiary *(note 16)*	**16,101**	15,737

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

27. EVENTS AFTER THE REPORTING PERIOD

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

On 24 August 2018, the Company has entered into the Convertible Notes Restructuring Agreement with the noteholder, pursuant to which the noteholder has agreed to a consensual restructuring of its rights and obligations under the Existing Convertible Notes due on 31 December 2018. The restructuring of the Existing Convertible Notes is subject to the shareholder's approval at an extraordinary general meeting to be held. At the date of this interim report, the restructuring of convertible notes has not been completed.