INTERNATIONAL
STANDARD
RESOURCES
標 準 資 源

2014
Interim Report

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

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

SOLICITORS

D.S. Cheung & Co., Solicitors

AUDITOR

Crowe Horwath (HK) CPA Limited
9/F, Leighton Centre
77 Leighton Road
Causeway Bay, Hong Kong

REGISTERED OFFICE

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

SHARE REGISTRARS

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

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91

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 2014 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the Period was HK$68,216,000 (2013: HK$32,246,000), representing an increase of 111.55%. Such increase of revenue was mainly due to the remarkable increase of contribution from electronic components business where the Group diversified the range of products distributed since early 2013. The revenue generated by the sale of electronic components was doubled, from HK$34,068,000 in 2013 to HK$69,914,000 in 2014. The Coalbed Methane ("**CBM**") exploration and exploitation operating subsidiaries ("**CBM Operating Subsidiaries**") generated revenue of HK$1,510,000 (2013: HK$2,106,000) in 2014, representing a decrease of 28.30%. The treasury segment generated a loss of HK$3,208,000 (2013: HK$3,928,000) in 2014, representing a decrease of 18.33%, which resulted from the net loss on financial assets at fair value through profit or loss. The Group recorded a gross loss of HK$655,000 (2013: HK$531,000).

The Group's loss for the Period was HK$124,035,000 (2013: HK$59,368,000). Substantial part of Group's loss was mainly due to the accounting treatments of various items, such as amortisation of the Production Sharing Contract ("**PSC**") amounted to HK$53,189,000 (2013: HK$58,490,000), fair value loss on convertible notes' embedded derivatives amounted to HK$19,728,000 (2013: gain of HK$44,732,000), imputed interest on convertible notes amounted to HK$40,868,000 (2013: HK$32,069,000), net exchange loss of HK$1,747,000 (2013: net gain of HK$2,570,000) and deferred tax credit amounted to HK$13,297,000 (2013: HK$14,622,000). The aggregate net result of the abovementioned accounting loss for 2014 was HK$102,235,000 (2013: HK$35,964,000). The accounting profit and loss mentioned above did not have actual impact on the cashflow position of the Group.

For comparison purpose, the loss after tax for 2014 and 2013, if excluding those accounting profit and loss, was HK$21,800,000 and HK$23,404,000 respectively. The decrease in loss was the result of a more effective control over expenditures successfully imposed by the Group during the Period.

The Group recorded a loss attributable to owners of the Company of approximately HK$123,827,000 (2013: HK$59,226,000). The basic and diluted loss per share was HK3.43 cents (2013: HK1.78 cents). The Directors do not recommend the payment of dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2014, the Group had current assets of HK$187,062,000 (31 December 2013: HK$177,105,000) and current liabilities of HK$53,979,000 (31 December 2013: HK$56,127,000) and cash and bank balances of HK$47,293,000 (31 December 2013: HK$42,260,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 346.55% (31 December 2013: 315.54%).

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 33.64% (31 December 2013: 30.39%). Net debt is calculated as total borrowings, as shown in the condensed consolidated statement of financial position, less cash and bank balances. Total capital is calculated as equity, as shown in the condensed consolidated statement of financial position, plus net debt.

During the Period up to 23 June 2014, being the date of expiry of the bonus warrants, 389,645,561 units of bonus warrants were exercised. 290,400,894 and 99,244,667 new ordinary shares of HK$0.02 each were issued during the Period and on 2 July 2014 upon the exercise of that 389,645,561 units of bonus warrants respectively and net proceeds of approximately HK$38,965,000 were raised for the general working capital of the Group.

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

RIGHTS ISSUE WITH BONUS WARRANTS

In June 2013, the Company allotted 331,923,660 new ordinary shares of HK$0.02 each on the basis of one rights share for every ten shares at a subscription price of HK$0.13 per rights share with bonus warrants on the basis of two bonus warrants for every one rights share taken up under a rights issue ("**Rights Issue**"). Net proceeds of HK$40,400,000 were primarily used for the repayment of convertible notes and as the general working capital of the Group.

A total of 663,847,320 bonus warrants were issued by the Company on the basis of two bonus warrants for every fully paid rights share issued under the Rights Issue. The holders of these bonus warrants are entitled to subscribe in cash for 663,847,320 new shares at an initial exercise price of HK$0.10 per share at anytime during the period commencing from 24 June 2013 to 23 June 2014 (both dates inclusive).

During the Period, net proceeds of approximately HK$38,965,000 were raised for the general working capital of the Group. According to the terms of the bonus warrants, on 23 June 2014, the subscription rights attached to the bonus warrants were expired and ceased to be valid for any purpose thereon.

COMMITMENTS

Details of the commitments of the Group are set out in note 19.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENT LIABILITIES

Save as disclosed in note 20, the Group had no other contingent liabilities as at 30 June 2014.

LITIGATION

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

As the entire Escrow Sum had fallen due and became payable to the Company on 24 June 2011, despite the Company's repeated requests to K & L Gates for the release of the Escrow Sum, the Company had not received the Escrow Sum. In early July of 2011, the Company, 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 Company 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 Company is engaged or pending or which was threatened against the Company.

CHARGED ON ASSETS

The short-term bank deposits, amounted to HK$180,423, have been pledged as securities for banking facilities granted to the Group as at 30 June 2014.

EVENTS AFTER THE REPORTING PERIOD

The Group had no material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2014, the Group had 68 employees, of which 21 were in Hong Kong and 47 were in PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, Mandatory Provident Fund schemes for Hong Kong employees and the state-managed employee pension schemes for employees in PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

BUSINESS REVIEW

Coalbed Methane ("CBM") Business

CBM is a kind of quality, clean and efficient natural gas existing in coal mines. With the development and utilization plan of CBM become crystalized, it has not only brought positive effect on the prevention of coal mine accidents and reduce air pollution, but also help to alleviate the problem of energy shortage and secure the provision of clean energy.

The Group, through its wholly-owned subsidiary, Canada Can-Elite Energy Limited ("**Can-Elite**") explores, develops and produces CBM in Anhui Province. Pursuant to the Production Sharing Contract entered into between Can-Elite and China United Coalbed Methane Corporation Limited ("**China United**", a state-owned company specialized in CBM business established with the approval from the State Council of the People's Republic of China, in which China National Offshore Oil Corporation holds 70% of its equity interest) (the "**PSC**"), Can-Elite can exploit the coalbed methane resources in a total exploration area of approximately 356.8 square kilometers, which was subsequently expanded to 567.843 square kilometers, located in Su'nan area, Anhui Province (the "**Contract Area**"; Su'nan Block and Luling Block) in the PRC, for a term of 30 years with effect from 1 April 2008. The profit sharing ratio between Can-Elite and China United is 70:30.

In order to successfully complete the exploration within the Contract Area, Can-Elite had reached an agreement with China United to extend the exploration period, which is originally to be expired in the end of March 2013, for two years to 31 March 2015.

During the Period, the reserve evaluation report (the "**Reserve Evaluation Report**") prepared in respect of the reserves located in Luling Block, being part of the Contract Area, had been approved by the Office for Oil and Gas Profession under the Mineral Resources and Reserves Assessment Centre of the Ministry of Land and Resources of the PRC and was duly filed with the Ministry of Land and Resources of the PRC on 4 June 2014 after the compliance review. The completion of the approval and filing procedure signified the risk assessment stage of Luling Block in the Contract Area has come to an end, and will proceed into the design and development stage.

Subsequent to the completion of the research and preparation works like drilling of trial exploration wells, formulating development plan and design, as well as the preparation for seeking approval, Can-Elite and China United will file an application for approval with the National Development and Reform Commission of the PRC for the commencement of full production in Luling Block. Can-Elite has been negotiating with relevant parties since 2013 to prepare for the exploration of Luling Block, such as formulating development plan required, preparing feasibility report and construction design. Besides, Can-Elite has also communicated with various target customers and initially formed a collaboration.

Since the beginning of 2014, in order to expedite the exploration within Su'nan Block, drilling of nine exploration wells have gradually started. As at the end of the Period, drilling of four of the wells (three production wells and one parametric well) has completed.

Shenzhen Clouds Energy Technology Limited ("**Shenzhen Clouds**"), another wholly-owned subsidiary of the Group, specializes in the technology services for CBM development and utilization, provision of comprehensive CBM development and utilization solution, as well as investment and operation of liquefied natural gas (LNG) factory and compressed natural gas (CNG) factory.

Shenzhen Clouds possesses advanced technologies and has a team of seasoned experts. Shenzhen Clouds has previously signed several letters of intent for the provision of technologies and services with different coal mines located in different cities and counties in Guizhou Province, pursuant to which Shenzhen Clouds will use a combination of domestic advanced technology and international advanced technology such as the geosteering drilling technique, combined with the extraction and processing technique, to achieve high efficient management and comprehensive utilization of coalbed methane.

Starting from 2014, Shenzhen Clouds has been actively cooperating with Can-Elite in respect of Luling Block, and has participated in the CBM development design, and the exploitation and procession of CBM, small wells solution design, as well as sales of gas, marketing and research, and the communication with investors.

In mid of May 2014, the Board and senior management of the Company went to the Contract Area and give site visits to area pending for development at Luling, the exploration area at Su'nan, and investigated the market conditions of natural gas stations nearby. Seminar with China United and local government officials was held to exchange ideas, systematically concluded the experiences gained from previous works, and set clearer direction for future works.

As at the end of the Period, the Group drilled a total of 22 exploration wells, 7 of which has commenced production. Under the exploration stage, the CBM business contributed about HK$1,510,000 of the revenue in this Period (2013: HK$2,106,000). A loss of HK$125,221,000 (2013: HK$55,326,000) was recorded mainly resulting from the amortisation of PSC of HK$53,189,000 (2013: HK$58,490,000) and the imputed interest on convertible notes of HK$40,868,000 (2013: HK$32,069,000).

Electronic Components Business

To diversify the range of products for its electronic components business segment, since early 2013, the Group ran computer products distribution, such as Notebook, mini-PC, hard drives, memory storage devices, etc in Hong Kong. The Group witnessed the continuous growth of this business which generated remarkable revenue with amount of HK$69,914,000, doubled that of the corresponding period in 2013. This business continues to generate stable revenue for the Group. The Group will continue to review the range of products in order to generate higher return.

Treasury Business

The treasury business includes securities trading and money lending businesses.

The Group, through its wholly-owned subsidiary Magic Chance Investments Limited ("**Magic Chance**"), engages in securities and debts trading in Hong Kong with a view for short to medium term profit. In light of the volatile stock market, the management reduces the investments in securities during the Period in order to minimize the business risk. For the Period, a loss of HK$3,396,000 (2013: HK$4,243,000) was recorded due to the fair value changes of the securities bought.

New Smart Credit Service Limited ("**New Smart Credit**"), another wholly-owned subsidiary of the Group, carried on money lending business in Hong Kong since 2011. The Group diversifies its money lending business by providing both corporate and personal loans that were secured or unsecured. Strict internal policy for granting and on-going review of the loan is established so as to ensure the business risk is manageable. Moreover, to meet the statutory requirements and to cope with the complexity of business environment, regular review and updates of internal policy is performed. Due to the reallocation of funds of the Group, the amount of fund distributed to the money lending businesses further decreased. As a result, for the Period, revenue generated from this segment (i.e. interest income) dropped comparatively to approximately HK$114,000, which represent a 47.47% decrease as compared to the corresponding period in 2013.

PROSPECTS

In the future, demand for natural gas in the PRC will be on an increasing trend, and the tight supply and demand of natural gas in the PRC will persist. As such, CBM, as a resource with bright potential and exploration and development prospects, is becoming an important and reliable source of natural gas.

Development and utilization of CBM becomes ever more important on the PRC Government's agenda, and many supporting and encouraging measures are rolling out, such as planning policies, pricing and preferential tax treatment and ancillary facilities. In order to resolve and control pollution, especially the continued severe smog problem, the State Council of the PRC issued the "*Air Pollution Prevention and Control Action Plan*", stating clear policies to strongly promote the use of clean energy, including natural gas, and to accelerate the construction of "replacing coal by natural gas" related projects. According to the "*12th Five-Year Plan on Natural Gas Development*" issued by the National Development and Reform Commission of the PRC and the National Energy Administration of the PRC, it is stated clearly that "it is estimated that the average annual increase in consumption of natural gas will exceed 20 billion cubic meters during the 12th Five-Year Period, reaching 230 billion cubic meters by 2015". It also precisely pointed out that "the low level of domestic gas prices did not fully reflect changes in market supply and demand and resource scarcity, which is unfavorable to the rational use of natural gas", as such, it is anticipated that natural gas price in the PRC will increase apparently, and the pricing of natural gas in the PRC has been increasing every year and the momentum has been building up. It is expected that the increase in demand in natural gas and its price will accelerate in the coming three to five years or over a longer period, and will see especially strong demand for natural gas in the Eastern PRC and prosperous coastal region.

For the above reasons, the Group's reasonable development and utilization over the Contract Area can satisfy the increasing market demand for natural gas in the PRC, and at the same time bring higher return to the Group.

In respect of the exploration of Su'nan Block, focus will be on the drilling for the additional proven reserves and investigation of the geological conditions of and potential resources in the area.

In respect of the development of Luling Block, various preparation works, such as evaluating the reserve according to international standards, formulating development plan and preparing the submissions for approval, as well as construction design will be commenced.

During the second half of the year, the Group will continue to honour the contract entered with China United, aiming at the smooth transition from exploring to commercial development and production, so as to achieve higher profit in shorter time.

Meanwhile, the Group will closely monitor the development of its electronic components business and treasury business, and to deploy the Group's resources in an effective manner, so as to bring higher returns for the Group and the shareholders.

DIRECTORS' INTERESTS IN CONTRACT

There is no contract of significance in relation to the Group's business to which the Company or any of its subsidiary companies was a party and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the 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 2014, the interests and short positions of each Director and Chief Executive 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	Percentage
Albert Saychuan Cheok	Beneficial	550,000	0.01%
Lyu Guoping	Beneficial	500,000	0.01%

Save as disclosed above, as at 30 June 2014, 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

The register of substantial shareholders maintained by the Company under Section 336 of the SFO shows that as at 30 June 2014, the Company had been notified of the following substantial shareholders' interests and short positions, being 5% or more of the Company's issued share capital.

Name	Nature of interest	Number of Shares	Number of underlying Shares	Percentage
Che Weng Kei	Beneficial/Corporate	406,050,000	–	10.23%
Leung Yuk Kit	Corporate	569,655,000	–	14.35%
New Alexander Limited *(Note 1)*	Beneficial	–	5,308,333,333	133.72%
Smart Dragon Global Limited *(Note 2)*	Beneficial	712,973,750	333,333,333	26.36%

Notes:

(1) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2015 in an aggregate outstanding principal amount of HK$637,000,000 as at 30 June 2014.

(2) Smart Dragon Global Limited, through its wholly-owned subsidiary, Toprise Capital Limited, is interested in the convertible notes convertible into shares issued by the Company due in 2015 in an aggregate outstanding principal amount of HK$40,000,000 as at 30 June 2014.

CORPORATE GOVERNANCE

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

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

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

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

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

Due to other business engagements, Mr. Wang Li, an INED, could not attend the annual general meeting of the Company held on 4 June 2014 which constitutes a deviation from the code provision A.6.7 during the Period. However, at the respective general meeting of the Company, there were executive Directors and INEDs present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

The Company has adopted a code of conduct regarding the Directors' securities transactions on exactly the terms and required standard contained in the Model Code as set out in Appendix 10 to the Listing Rules. Having made specific enquiry of all the Directors, all the Directors confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding Directors' securities transactions throughout the Period.

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

BONUS ISSUE OF WARRANTS

The Board intends to propose a bonus issue of new warrants to shareholders of the Company. The details of which will be disclosed in a separate announcement.

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 interim financial report has been reviewed by the Company's independent auditor in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants.

ACKNOWLEDGEMENT

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

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

Hong Kong, 28 August 2014

Crowe Horwath

國富浩華(香港)會計師事務所有限公司
Crowe Horwath (HK) CPA Limited
Member Crowe Horwath International

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Causeway Bay, Hong Kong

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 16 to 38, which comprises the condensed consolidated statement of financial position as of 30 June 2014 and the related condensed consolidated income statement, the condensed consolidated statement of comprehensive income, the condensed consolidated statement of changes in equity and the condensed consolidated statement of cash flows for the six-month period then ended and 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" issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of the interim financial report in accordance with Hong Kong Accounting Standard 34. Our responsibility is to express a conclusion, based on our review, on the interim financial report 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 Hong Kong Institute of Certified Public Accountants. A review of the interim financial report 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 interim financial report is not prepared, in all material aspects, in accordance with Hong Kong Accounting Standard 34 “Interim Financial Reporting”.

Crowe Horwath (HK) CPA Limited
Certified Public Accountants
Hong Kong, 28 August 2014

Leung Chun Wa
Practising Certificate Number P04963

CONDENSED CONSOLIDATED INCOME STATEMENT

For the six months ended 30 June 2014

		Unaudited Six months ended	
	Note	**30 June 2014** ***HK$'000***	30 June 2013 *HK$'000*
Revenue	3	**68,216**	32,246
Cost of sales		**(68,871)**	(32,777)
Gross loss		**(655)**	(531)
Other income		**581**	3,719
Fair value change of convertible notes' embedded derivatives	16	**(19,728)**	44,732
Gain on redemption of convertible notes		**–**	21
Loss on restructuring of convertible notes		**–**	(7,350)
Administrative expenses		**(23,441)**	(23,905)
Amortisation of production sharing contract	10	**(53,189)**	(58,490)
Finance costs	5	**(40,868)**	(32,078)
Loss before taxation	4	**(137,300)**	(73,882)
Income tax	6	**13,265**	14,514
Loss for the period		**(124,035)**	(59,368)
Loss for the period attributable to:			
Owners of the Company		**(123,827)**	(59,226)
Non-controlling interests		**(208)**	(142)
		(124,035)	(59,368)
Loss per share (expressed in HK cents)	8		
Basic and diluted		**(3.43)**	(1.78)

CONDENSED CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the six months ended 30 June 2014

	Unaudited Six months ended	
	30 June 2014	30 June 2013
	HK$'000	*HK$'000*
Loss for the period	**(124,035)**	(59,368)
Other comprehensive income:		
Items that may be subsequently reclassified to profit or loss:		
– exchange differences on translation of financial statements of foreign operations	**(30,631)**	46,880
Total comprehensive loss for the period	**(154,666)**	(12,488)
Total comprehensive loss for the period attributable to:		
Owners of the Company	**(154,458)**	(12,346)
Non-controlling interests	**(208)**	(142)
	(154,666)	(12,488)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	**Unaudited 30 June 2014 HK$'000**	Audited 31 December 2013 HK$'000
Non-current assets			
Property, plant and equipment	9	**57,098**	59,761
Intangible assets	10	**2,589,015**	2,684,180
Available-for-sale financial assets		**1,000**	1,000
		2,647,113	2,744,941
Current assets			
Financial assets at fair value through profit or loss	11	**25,489**	31,037
Loan receivables		**1,015**	4,059
Trade and other receivables	12	**102,670**	99,749
Deposits with financial institutions		**10,595**	–
Pledged bank deposits		**180**	180
Cash and cash equivalents		**47,113**	42,080
		187,062	177,105
Total assets		**2,834,175**	2,922,046
EQUITY			
Share capital: nominal value	13	**–**	73,589
Other statutory capital reserves		**–**	1,418,773
Share capital and other statutory capital reserves		**1,531,000**	1,492,362
Other reserves		**(134,461)**	19,670
Equity attributable to owners of the Company		**1,396,539**	1,512,032
Non-controlling interests		**(2,697)**	(2,489)
Total equity		**1,393,842**	1,509,543

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 30 June 2014

	Note	**Unaudited 30 June 2014 *HK$'000***	Audited 31 December 2013 *HK$'000*
Non-current liabilities			
Convertible notes –liability portion, unsecured	16	**563,017**	528,975
Convertible notes –embedded derivatives, unsecured	16	**176,084**	156,356
Deferred tax liabilities	17	**647,253**	671,045
		1,386,354	1,356,376
Current liabilities			
Other borrowings, unsecured	15	**14,734**	15,831
Trade and other payables	18	**37,177**	38,243
Tax payable		**2,068**	2,053
		53,979	56,127
Total liabilities		**1,440,333**	1,412,503
Total equity and liabilities		**2,834,175**	2,922,046
Net current assets		**133,083**	120,978
Total assets less current liabilities		**2,780,196**	2,865,919

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2014

	Attributable to owners of the Company											
	Share capital *HK$'000*	Share premium *HK$'000*	Shares to be issued *HK$'000* *(note 13 (v))*	Capital redemption reserve *HK$'000*	Special capital reserve *HK$'000*	Other capital reserve *HK$'000*	Warrant reserve *HK$'000* *(note 14)*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total equity *HK$'000*
At 1 January 2013	66,385	1,397,856	–	5,318	579,799	1,805	–	227,767	(523,470)	1,755,460	(1,879)	1,753,581
Issue of shares under rights issue, net of share issuance costs	6,638	34,530	–	–	–	–	–	–	–	41,168	–	41,168
Issue of warrants	–	(21,941)	–	–	–	–	21,941	–	–	–	–	–
Loss for the period	–	–	–	–	–	–	–	–	(59,226)	(59,226)	(142)	(59,368)
Other comprehensive income												
Exchange differences arising on translation of financial statements of foreign operations	–	–	–	–	–	–	–	46,880	–	46,880	–	46,880
Total comprehensive income for the period	–	–	–	–	–	–	–	46,880	(59,226)	(12,346)	(142)	(12,488)
At 30 June 2013 (Unaudited)	73,023	1,410,445	–	5,318	579,799	1,805	21,941	274,647	(582,696)	1,784,282	(2,021)	1,782,261
At 1 January 2014	**73,589**	**1,413,455**	**-**	**5,318**	**579,799**	**1,805**	**21,007**	**293,705**	**(876,646)**	**1,512,032**	**(2,489)**	**1,509,543**
Issue of shares upon exercise of warrants	**5,808**	**32,830**	**-**	**-**	**-**	**-**	**(9,598)**	**-**	**-**	**29,040**	**-**	**29,040**
Shares to be issued upon exercise of warrants	**-**	**-**	**9,925**	**-**	**-**	**-**	**-**	**-**	**-**	**9,925**	**-**	**9,925**
Transfer upon expiration of warrants	**-**	**-**	**-**	**-**	**-**	**-**	**(8,128)**	**-**	**8,128**	**-**	**-**	**-**
Transition to no-par value regime	**1,451,603**	**(1,446,285)**	**-**	**(5,318)**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**
Loss for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(123,827)**	**(123,827)**	**(208)**	**(124,035)**
Other comprehensive income												
Exchange differences arising on translation of financial statements of foreign operations	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(30,631)**	**-**	**(30,631)**	**-**	**(30,631)**
Total comprehensive income for the period	**-**	**-**	**-**	**-**	**-**	**-**	**-**	**(30,631)**	**(123,827)**	**(154,458)**	**(208)**	**(154,666)**
At 30 June 2014 (Unaudited)	**1,531,000**	**-**	**9,925**	**-**	**579,799**	**1,805**	**3,281**	**263,074**	**(992,345)**	**1,396,539**	**(2,697)**	**1,393,842**

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2014

	Unaudited Six months ended	
	30 June 2014 *HK$'000*	30 June 2013 *HK$'000*
Cash used in operations	**(15,116)**	(28,293)
Income taxes paid	**(17)**	(447)
Net cash used in operating activities	**(15,133)**	(28,740)
Net cash (used in)/generated from investing activities		
Purchase of property, plant and equipment	**(2,091)**	(713)
Other investing cash flows	**(10,538)**	3,000
	(12,629)	2,287
Net cash generated from financing activities		
Proceeds from issue of shares upon exercise of warrants	**38,964**	–
Proceeds from rights issue	**–**	41,168
Interest paid	**(6,826)**	(156)
Repayment for redemption of convertible notes	**–**	(17,640)
Repayment of other loan	**(852)**	(1,486)
	31,286	21,886
Net increase/(decrease) in cash and cash equivalents	**3,524**	(4,567)
Cash and cash equivalents at beginning of period	**42,080**	78,506
Effect of foreign exchange rate changes	**1,509**	(1,718)
Cash and cash equivalents at end of period	**47,113**	72,221

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard 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. It was authorised for issue on 28 August 2014.

These unaudited condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2013 annual financial statements, except for the accounting policy changes that are expected to be reflected in the 2014 annual financial statements. Details of any changes in accounting policies are set out in note 2.

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis except for available-for-sale financial assets, financial assets at fair value through profit or loss and embedded derivative in convertible notes, which are measured at fair values.

The HKICPA has issued the following amendments to HKFRSs and one new Interpretation that are first effective for the current accounting period of the Group and the Company.

- Amendments to HKFRS 10, HKFRS 12 and HKAS 27, Investment entities
- Amendments to HKAS 32, Offsetting financial assets and financial liabilities
- Amendments to HKAS 36, Recoverable amount disclosures for non-financial assets
- Amendments to HKAS 39, Novation of derivatives and continuation of hedge accounting
- HK(IFRIC) – Int 21, Levies

The Group has assessed the impact of these amendments and the new interpretation and concluded that the adoption of them has no significant impact on the Group's result of operation and financial position.

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

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 2014 HK$'000	30 June 2013 HK$'000
Sales of electronic components	**69,914**	34,068
Sales of coalbed methane products	**1,510**	2,106
Gain on trading of securities	**74**	98
Net loss on financial assets at fair value through profit or loss	**(3,396)**	(4,243)
Interest income from money lending	**114**	217
	68,216	32,246

(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.

– Electronics components

– Coalbed methane

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

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results

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

Segment results represent the results from each segment without allocation of central administration costs (i.e. directors' remuneration). Taxation charge is not allocated to reportable segment.

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.

Information regarding the Group's reportable segments as provided to the Group's most senior executive management is set out below:

Six months ended 30 June 2014 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	**69,914**	**1,510**	**(3,208)**	**68,216**
Reportable segment result	**(377)**	**(125,221)**	**(4,351)**	**(129,949)**
Amortisation of production sharing contract for the period	**–**	**53,189**	**–**	**53,189**
Depreciation for the period	**19**	**3,512**	**70**	**3,601**
Other income	**(52)**	**(147)**	**(256)**	**(455)**
Interest expenses	**–**	**40,868**	**–**	**40,868**
Major non-cash item:				
– Fair value change of convertible notes' embedded derivatives	**–**	**19,728**	**–**	**19,728**

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Six months ended 30 June 2013 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Reportable segment revenue from external customers	34,068	2,106	(3,928)	32,246
Reportable segment result	(101)	(55,326)	(5,210)	(60,637)
Amortisation of production sharing contract for the period	–	58,490	–	58,490
Depreciation for the period	17	1,454	69	1,540
Gain on redemption of convertible notes	–	(21)	–	(21)
Other income	(78)	(2,821)	(820)	(3,719)
Interest expenses	6	32,072	–	32,078
Major non-cash item:				
– Fair value change of convertible notes' embedded derivatives	–	(44,732)	–	(44,732)

(ii) Reconciliations of reportable segment profit or loss

	Unaudited Six months ended 30 June 2014 *HK$'000*	30 June 2013 *HK$'000*
Reportable segment loss	**(129,949)**	(60,637)
Other income	**126**	–
Unallocated head office and corporate expenses	**(7,477)**	(13,245)
Consolidated loss before taxation	**(137,300)**	(73,882)

4. LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

	Unaudited Six months ended 30 June 2014 HK$'000	30 June 2013 HK$'000
Staff costs (including directors' emoluments)		
– Salaries and other emoluments	**9,690**	12,215
– Contributions to retirement scheme	**611**	651
	10,301	12,866
Depreciation of property, plant and equipment	**3,850**	1,905
Amortisation of production sharing contract	**53,189**	58,490
Operating lease charges in respect of land and buildings	**1,800**	2,019
Write-down of inventories	**12**	–
Cost of inventories sold	**68,871**	32,777

5. FINANCE COSTS

	Unaudited Six months ended 30 June 2014 HK$'000	30 June 2013 HK$'000
Interest expenses on borrowings wholly repayable within five years:		
– Imputed interest on convertible notes	**40,868**	32,069
– Interest on bank overdrafts	**–**	9
Total interest expenses on financial liabilities not at fair value through profit or loss	**40,868**	32,078

6. INCOME TAX

	Unaudited Six months ended	
	30 June 2014	30 June 2013
	HK$'000	*HK$'000*
Current taxation		
Provision for the period	**32**	108
Deferred tax liabilities *(note 17)*	**(13,297)**	(14,622)
Tax credit	**(13,265)**	(14,514)

Notes:

(a) No Hong Kong Profits Tax has been provided as the Group had no estimated assessable profits for the six months ended 30 June 2014 (2013: Nil).

(b) The Group's subsidiaries in the People's Republic of China (the "PRC") are subject to PRC Corporate income tax rate of 25% (2013: 25%) for the six months ended 30 June 2014.

(c) Deferred tax liabilities arose from the reversal of the temporary difference arising from the amortisation of the production sharing contract in respect of PSC as referred to in note 10 to the condensed consolidated financial statements.

7. DIVIDEND

The directors do not recommend the payment of an interim dividend in respect of the six months ended 30 June 2014 (2013: Nil).

8. LOSS PER SHARE

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

	Unaudited Six months ended 30 June 2014 HK$'000	30 June 2013 HK$'000
Loss used in the calculation of basic loss per share	**(123,827)**	(59,226)
Weighted average number of ordinary shares for the purpose of basic loss per share:		
Issued ordinary shares at 1 January	**3,495,601,213**	3,316,899,112
Effect of rights issue	**–**	12,927,227
Effect of exercise of warrants	**116,956,546**	–
Weighted average number of ordinary shares at 30 June	**3,612,557,759**	3,329,826,339

No adjustment was made in calculating diluted loss per share for the conversion of convertible notes as the conversion would result in decrease loss per share.

9. PROPERTY, PLANT AND EQUIPMENT

	Unaudited Property, plant and equipment HK$'000
Carrying amount as at 1 January 2014	59,761
Exchange adjustments	(904)
Additions	2,091
Depreciation	(3,850)
Carrying amount as at 30 June 2014	57,098

10. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2013	4,059,790
Exchange adjustments	128,293
At 31 December 2013 and 1 January 2014	4,188,083
Exchange adjustments	(65,763)
At 30 June 2014	4,122,320
Accumulated amortisation and impairment	
At 1 January 2013	1,064,157
Charge for the year	117,824
Impairment loss	283,470
Exchange adjustments	38,452
At 31 December 2013 and 1 January 2014	1,503,903
Charge for the period	53,189
Exchange adjustments	(23,787)
At 30 June 2014	1,533,305
Carrying amount	
At 30 June 2014 (Unaudited)	2,589,015
At 31 December 2013 (Audited)	2,684,180

The PSC is amortised on straight-line basis over the remaining contract terms of 24.9 years of the PSC.

11. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2014 *HK$'000*	Audited 31 December 2013 *HK$'000*
Equity securities held for trading:		
– Listed in Hong Kong at fair value	**25,489**	31,037

The fair values for the above listed securities are determined by reference to their quoted market closing bid prices available on the relevant exchange at the date of the reporting period.

Fair value loss of HK$3,396,000 (2013: HK$4,243,000) has been recognised in the condensed consolidated income statement for the period ended 30 June 2014.

12. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2014 *HK$'000*	Audited 31 December 2013 *HK$'000*
Trade receivables	**14,036**	12,930
Provision for impairment	**(329)**	(329)
	13,707	12,601
Other receivables *(note)*	**85,133**	85,368
Deposits and prepayments	**3,830**	1,780
	102,670	99,749

Note:

Included in other receivables is an aggregate sum of HK$85,000,000 which was placed at the escrow account of a firm of solicitors, which acts as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of the escrow sum of HK$85,000,000 as referred to note 20(a). The directors of the Company are of the opinion, based on the legal advise sought, that the escrow sum can be recovered in full, and therefore, no impairment is required as at 30 June 2014.

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

12. TRADE AND OTHER RECEIVABLES *(Continued)*

Note: (Continued)

The ageing analysis of the trade receivables, based on the dates of the invoices, net of provision for impairment, is as follows:

	Unaudited 30 June 2014 *HK$'000*	Audited 31 December 2013 *HK$'000*
0-30 days	**13,105**	8,255
31-90 days	**602**	4,346
91-365 days	**–**	–
Over 365 days	**–**	–
	13,707	12,601

13. SHARE CAPITAL

	Number of ordinary shares	**Nominal value of ordinary shares** *HK$'000*
Authorised:		
At 1 January 2013 of HK$0.01 each	25,000,000,000	250,000
Share consolidation *(note (i))*	(12,500,000,000)	–
At 31 December 2013 of HK$0.02 each	12,500,000,000	250,000
At 1 January 2014 and 30 June 2014 *(note (ii))*	–	–
Issued and fully paid:		
At 1 January 2013	6,638,473,206	66,385
Share consolidation *(note (i))*	(3,319,236,603)	–
Issue of shares upon rights issue *(note (iii))*	331,923,660	6,638
Issue of shares upon exercise of warrants *(note 14)*	28,273,728	566
At 31 December 2013 and 1 January 2014	3,679,433,991	73,589
Issue of shares upon exercise of warrants *(note 14)*	290,400,894	5,808
Transition to no-par value regime *(note (iv))*	–	1,451,603
At 30 June 2014	3,969,834,885	1,531,000

13. SHARE CAPITAL *(Continued)*

Notes:

(i) Pursuant to an ordinary resolution passed at a special general meeting of the Company held on 20 May 2013, every two issued and unissued shares of HK$0.01 each were consolidated into one consolidated share of HK$0.02 each with effect from 21 May 2013.

(ii) Under the new Hong Kong Companies Ordinance (Cap. 622), which commenced operation on 3 March 2014, the concept of authorised share capital no longer exists. In accordance with section 135 of the new Hong Kong Companies Ordinance (Cap. 622), the Company's shares no longer have a par or nominal value with effect from 3 March 2014. There is no impact on the number of shares in issue or the relative entitlement of any of the members as a result of this transition.

(iii) On 24 June 2013, the Company issued 331,923,660 rights shares of HK$0.02 each at a price of HK$0.13 per rights share on the basis of one rights share for every ten shares held on 29 May 2013 with bonus warrants on the basis of two bonus warrants for every one rights share taken up.

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

(v) Consideration for exercise of bonus warrants of HK$9,925,000 was duly received before the period ended 30 June 2014. The share certificates have been issued on 2 July 2014, the consideration received is credited to shares to be issued.

14. WARRANTS

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

During the period ended 30 June 2014, 290,400,894 ordinary shares of HK$0.02 were issued for cash at an exercise price of HK$0.10 per share. At as 30 June 2014, there are 99,244,667 ordinary shares of HK$0.02 each to be issued subsequently on 2 July 2014 upon exercise of Warrants before the expiry date. The warrant reserve represents the fair value of respective Warrants at the issue date. The reserve will be transferred to share capital and share premium account upon the exercise and lapse of the warrants.

15. OTHER BORROWINGS

Other borrowings are payable to an independent third party, unsecured and repayable on demand.

16. CONVERTIBLE NOTES

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

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

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

The conversion price of the New Convertible Notes was adjusted to HK$0.13 on 20 May 2013 and HK$0.12 on 30 May 2013 upon completion of the share consolidation and rights issue with bonus warrants as detailed in note 13.

The fair value of the derivatives embedded in the New Convertible Notes was estimated by using the binominal lattice model. The inputs into the model were as follows:

	At 30/6/2014	At 31/12/2013
Share price	**HK$0.13**	HK$0.125
Conversion price	**HK$0.12**	HK$0.12
Risk-free rate	**0.245%**	0.333%
Expected dividend yield	**Nil**	Nil
Volatility	**46.60%**	47.58%

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

16. CONVERTIBLE NOTES *(Continued)*

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

	Embedded derivatives portion	Liability portion	Total
	HK$'000	*HK$'000*	*HK$'000*
Issue of convertible notes on 28 January 2013	217,397	477,603	695,000
Imputed interest charged to condensed consolidated income statement	–	70,399	70,399
Decrease in fair value credited to condensed consolidated income statement	(56,547)	–	(56,547)
Redemption	(4,494)	(13,167)	(17,661)
Repayment of interest	–	(5,860)	(5,860)
Carrying amount of convertible notes (with principal amount of HK$677,000,000) as at 31 December 2013 and 1 January 2014	156,356	528,975	685,331
Imputed interest charged to condensed consolidated income statement	–	40,868	40,868
Increase in fair value charged to condensed consolidated income statement	19,728	–	19,728
Repayment of interest	–	(6,826)	(6,826)
At 30 June 2014 (Unaudited)	176,084	563,017	739,101

At 30 June 2014, New Convertible Notes with principal amount of HK$677,000,000 remained outstanding.

17. DEFERRED TAX LIABILITIES

	HK$'000
At 1 January 2013	748,908
Credited to condensed consolidated income statement	(100,324)
Exchange adjustments	22,461
At 31 December 2013 and 1 January 2014 (Audited)	671,045
Credited to condensed consolidated income statement	(13,297)
Exchange adjustments	(10,495)
At 30 June 2014 (Unaudited)	647,253

At 30 June 2014, the recognised deferred tax liabilities represented the tax effect of the fair value adjustments on the business combination completed in 2008.

18. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2014 HK$'000	Audited 31 December 2013 HK$'000
Trade payables	**3,217**	5,780
Other payables	**30,780**	28,615
Accrued operating expenses	**3,180**	3,848
	37,177	38,243

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

	Unaudited 30 June 2014 HK$'000	Audited 31 December 2013 HK$'000
Current-within 1 month	**1,529**	1,856
More than 1 month but within 3 months	**1,428**	3,340
More than 3 month but within 6 months	**25**	313
More than 6 months	**235**	271
	3,217	5,780

19. COMMITMENTS

(i) Capital commitments

Capital commitments in respect of the production sharing contract as at 30 June 2014 not provided for in the financial statements were as follows:

	Unaudited 30 June 2014 HK$'000	Audited 31 December 2013 HK$'000
Production sharing contract:		
– Contracted but not provided for	**55,934**	51,399

19. COMMITMENTS *(Continued)*

(ii) Operating lease commitments

At 30 June 2014, the total future minimum lease payments in respect of land and buildings under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2014 *HK$'000*	Audited 31 December 2013 *HK$'000*
Within 1 year	**2,478**	3,359
After 1 year but within 5 years	**1,002**	1,460
	3,480	4,819

20. CONTINGENT LIABILITIES

(a) Legal contingencies

The Group is the plaintiff in legal proceedings against a firm of solicitors in Hong Kong, who acts as an escrow agent for the Group, for the return of an aggregate escrow amount of HK$85,000,000 placed with the escrow agent. While the outcome of such proceedings or lawsuits cannot be estimated at present, management believes that any resulting outcome will not have a material adverse effect on the financial position or operating results of the Group.

(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 clean-up 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.

21. FAIR VALUE MEASUREMENT

(a) Financial assets measured at fair value

(i) Fair value hierarchy

Fair value measurements as at 30 June 2014

	Fair value at 30 June 2014 *HK$'000*	**Quoted prices in active market for identical assets (Level 1)** *HK$'000*	**Significant other observable inputs (Level 2)** *HK$'000*	**Significant unobservable inputs (Level 3)** *HK$'000*
Recurring fair value measurement				
Financial assets:				
– Trading securities	**25,489**	**25,489**	**–**	**–**
– Available-for-sale financial assets	**1,000**	**–**	**–**	**1,000**
Financial liabilities:				
– Conversion option embedded in convertible notes	**176,084**	**–**	**–**	**176,084**

Fair value measurements as at 31 December 2013

	Fair value at 31 December 2013 *HK$'000*	Quoted prices in active market for identical assets (Level 1) *HK$'000*	Significant other observable inputs (Level 2) *HK$'000*	Significant unobservable inputs (Level 3) *HK$'000*
Recurring fair value measurement				
Financial assets:				
– Trading securities	31,037	31,037	–	–
– Available-for-sale financial assets	1,000	–	–	1,000
Financial liabilities:				
– Conversion option embedded in convertible notes	156,356	–	–	156,356

During the six months ended 30 June 2014, there were no transfers between Level 1 and Level 2, or transfer into or out of Level 3 (2013: 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.

21. FAIR VALUE MEASUREMENT *(Continued)*

(a) Financial assets measured at fair value *(Continued)*

(ii) Information about Level 3 fair value movements

The fair value of conversion option embedded in conversion notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is expected volatility. The fair value measurement is positively correlated to the expected volatility. As at 30 June 2014, the volatility used in the valuation is 46.6% and it is estimated that with all other variables held constant, an increase/decrease of 20 points in the volatility would have increased/decreased the Group's loss by HK$57,251,000 and HK$50,030,000.

The movement during the period in the balance of Level 3 fair value measurements is as follows:

	Unaudited 30 June 2014 ***HK$'000***	Unaudited 30 June 2013 *HK$'000*
Conversion option embedded in convertible notes and available-for-sale financial assets		
At 1 January	**157,356**	1,000
Issue of convertible notes	**–**	217,397
Redemption	**–**	(4,494)
Change in fair value recognised in profit or loss during the period	**19,728**	(44,732)
At 30 June	**177,084**	169,171

(b) Fair value of financial assets and liabilities carried at other than fair value

The carrying amounts of the Group's financial instruments carried at cost or amortised cost are not materially different from their fair values as at 31 December 2013 and 30 June 2014.