

# INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

## Annual Report 2016



## CORPORATE INFORMATION

### DIRECTORS

#### Executive Directors

Cheng Wai Keung  
Tam Tak Wah  
Tsang Ching Man

#### Independent Non-Executive Directors

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

### CHIEF EXECUTIVE OFFICER

Lyu Guoping

### AUTHORISED REPRESENTATIVES

Tam Tak Wah  
Tsang Ching Man

### COMPANY SECRETARY

Tsang Ching Man

### AUDIT COMMITTEE

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

### NOMINATION COMMITTEE

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

### REMUNERATION COMMITTEE

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

### PRINCIPAL BANKERS

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

### LEGAL ADVISORS

TC & Co., Solicitors  
Lau Kwong & Hung, Solicitors  
D.S. Cheung & 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](http://www.intl-standardresources.com)

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英发能源  
英发能源控股有限公司  
（股票代码：000811）

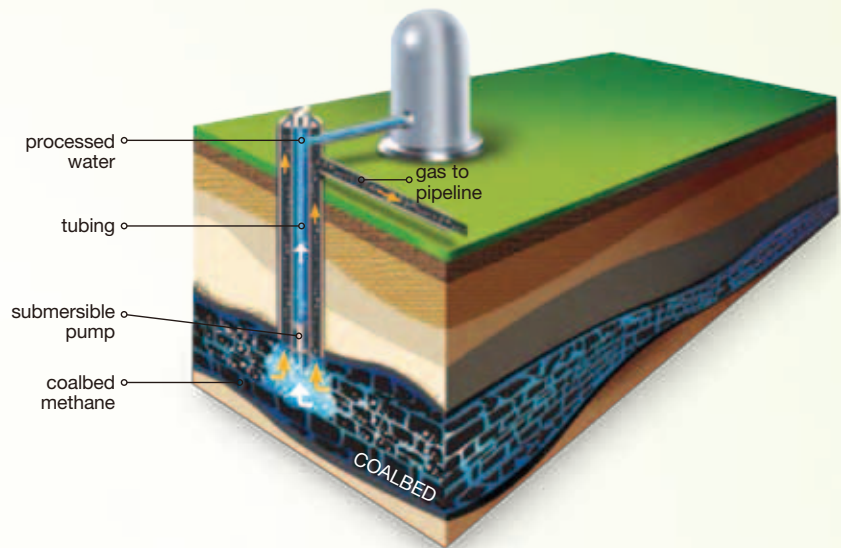
# CHAIRMAN'S STATEMENT



## CHAIRMAN'S STATEMENT

Dear Shareholders,

On behalf of the board of directors (the "Board" or "Director(s)") of International Standard Resources Holdings Limited (the "Company" together with its subsidiaries, the "Group"), I hereby present the annual results of the Group for the financial year ended 31 December 2016.



## BUSINESS REVIEW

During the year ended 31 December 2016, the Group was mainly engaged in coalbed methane ("CBM") exploration and production in the People's Republic of China (the "PRC"), electronic components trading and treasury businesses. Though revenue generated from electronic components trading accounted for about 86.69% of the Group's total revenue for the year, the Group will continue to focus and put resources on CBM exploration and production business.

### Coalbed Methane Business

The Group explores, develops and produces CBM in the Anhui Province with a total exploration area of 567.843 square kilometres. As at the end of the year of 2016, the CBM operation was still in exploration stage, a total of 33 exploration wells were drilled and 7 of which have been put into production, as such there were only marginal contributions from the CBM business for the year. Total revenue generated from the CBM business was HK\$2,000,000 (2015: HK\$1,951,000), despite the fact that there is a fair value gain on the embedded derivative portion of the convertible notes of HK\$83,295,000 (2015: HK\$19,472,000), a loss of HK\$415,349,000 (2015: HK\$547,205,000) was recorded mainly due to the amortisation of production sharing contract (the "PSC") of HK\$81,839,000 (2015: HK\$104,738,000), the imputed interest on convertible notes of HK\$43,817,000 (2015: HK\$57,529,000), and the impairment loss on PSC of HK\$341,771,000 (2015: HK\$419,819,000) which was resulted from the delay on the implementation of the business plan for exploration and exploitation of the CBM and the continuous low level of domestic natural gas price in the PRC.

## CHAIRMAN'S STATEMENT

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

In December 2015, Can-Elite and China United entered into the third modification agreement, under which the contract area is divided into Area A (part of Luling Block with an area of 23.686 square kilometres that has its proven reserves submitted) and Area B (primary part of Su’nan Block with an area of 544.157 square kilometres, which the proven reserve yet to be submitted). Both parties further stipulated that Area A will start production with effect from the day the Overall Development Proposal (ODP) approved by relevant authorities of the PRC government; the exploration period of Area B has been postponed to 31 March 2017. The Group is currently negotiating with China United with a view to further extend the exploration period of Area B on mutually agreed terms and conditions.



During the year, the Group commenced deep drilling of exploration wells at the deeper zones of Su’nan Block in Area B based on results from the 2D seismic survey report, and intended to carry out the fracturing transformation process. At the same time, as a requirement for preparing the reserves report and according to respective needs, each group of wells that were drilled in 2015 at Area B has undergone multi-layer drainage and extraction testing, secondary fracturing transformation process, and subsequently, drainage and extraction observation and evaluation analysis process.

## CHAIRMAN'S STATEMENT

During the year, the Group has implemented the drilling of a pair of U-shaped horizontal wells at Area A, which was subsequently converted into two independent drilled wells, one being a conventional vertical well and the other a cavity well. The adoption of the cavity well was a first in the region, and was currently at drainage and extraction observation stage.



In January 2016, the Group, through its wholly-owned subsidiary, incorporated Can-Elite Coalbed Gas (Anhui) Co (“**Can-Elite (Anhui)**”) at the Economic Development District of Suzhou to engage in gathering, compression, canning, processing and transportation of gas collected from the wells for supply of vehicular and industrial gas. Currently, Can-Elite (Anhui) has installed a temporary collection device to capture compressed CBM at Area A, and intends to invest in the construction of secondary gas filling stations that include gases used for industrial cutting and for vehicles at the Economic Development District of Suzhou. After the project is completed and commenced operation, the external sales for the gas produced within the collaborative blocks pose to gradually increase, laying the foundation towards sales of scale for this project in the future.

In order to widen cooperation advantage, gain further supports from the national and local government, and enhance the protection of skills on exploration and extraction of CBM as well as the CBM reserves, the Group and Can-Elite have conducted meaningful communications and discussions with the relevant authorities in Henan Province, Coal Geology Bureau of Henan Province and Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd. during first half of the year. With the consent from the relevant authorities in Henan Province, the “Strategic Cooperation Agreement Between International Standard Resources Holdings Limited (0091.HK), Coal Geology Bureau of Henan Province, Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd.” was signed at Zhengzhou City, Henan Province on 16 August 2016. The three parties have officially established a mutual, reciprocal and steady long-term cooperative relationship, and this agreement represents a gradual intention to further cooperations in technical and construction matters in the Group’s existing Suzhou project, in searching for new CBM collaborative blocks to explore and develop, as well as in areas such as assets restructuring, investments and financing.

## CHAIRMAN'S STATEMENT

### Treasury Business

The treasury business includes securities trading and money lending businesses.

The Group adopts a prudent approach for all its investments with the view for short to medium term profit. At 31 December 2016, the Group held a portfolio of various listed securities, which comprised of 10 listed companies in banking and financial sectors with an aggregate amount of approximately HK\$70,085,000. Due to the underperformance of Hong Kong stock market during the year, the share prices of most of the listed companies invested by the Group dropped and thus the Group recorded net unrealised losses of approximately HK\$43,333,000 (i.e. unrealised gains of approximately HK\$1,748,000 and unrealised losses of approximately HK\$45,081,000), of which approximately 99.91% of the unrealised loss was attributable to the Group's investment in Styland Holdings Limited ("STYLAND"). Details of the investments in STYLAND are as follows:

	For the year ended 31 December 2016		At 31 December 2016			At 31 December 2015
	Fair value loss <i>HK\$'000</i>	Approximate percentage of fair value loss on held-for- trading investments	Market value <i>HK\$'000</i>	Approximate percentage of held-for- trading investments	Approximate percentage to the net assets	Market value <i>HK\$'000</i>
STYLAND	(45,041)	99.91%	42,057	60.01%	5.99%	80,458

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

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



## CHAIRMAN'S STATEMENT

Except the investment in STYLAND, at 31 December 2016, there was no investment held by the Group which value was more than 5% of the net assets of the Group.

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 and to cope with the complexity of business environment, regular review and updates of internal policy are performed. During the year, revenue generated from this segment (i.e. interest income) increased to approximately HK\$1,130,000 from HK\$979,000 in 2015.

### 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\$20,388,000, which represent a 63.13% decrease as compared to year 2015. In order to diversify the range of products in electronic components business segment, the Group ran medical electronic equipments distribution since October 2016. The Group will regularly review the range of products distributed to confront with the increasingly difficult business environment so as to generate stable revenue and return. However, it shall be expected that the situation will not be improved in the short run.

### PROSPECTS

CBM is a quality, clean and efficient natural gas resource stored in coal seams. With the exploitation and utilisation plan of CBM become crystallised, it has strengthened the prevention on coal mine accidents and reduced air pollution. It also helped alleviate the problem of energy shortage and secured the provision of clean energy, as such the government has been paying more attention to CBM businesses. Despite fluctuation in the global oil and gas industry in recent years, the PRC government has continuously introduced policies and plans to support the development of the CBM industry, and along with ceaseless technology breakthroughs, continuous increase in new reserves and improvements in various complementary conditions, have contributed to better prospect for CBM industry in the PRC.



## CHAIRMAN'S STATEMENT

In 2016, the natural gas market of the PRC has experienced various degrees of increase in volumes of demand, import and domestic production. The National Development and Reform Commission of the PRC has disclosed that in the year 2016, consumption volume of natural gas was 205.8 billion cubic metres, representing an increase of 6.6%; import volume of natural gas was 72.1 billion cubic metres, representing an increase of 17.4%; domestic production volume of natural gas was 137.1 billion cubic metres, representing an increase of 1.5%. In the same year, growth in domestic production volume for CBM was significantly faster than growth in domestic production volume for natural gas.

The PRC government encourages the production and consumption of natural gas and the exploration and exploitation of CBM. Li Keqiang, Premier of the PRC, has emphasised in the "Report on the Work of the Government (2016)" the need to vigorously curb the haze problem; promote the use of electricity and natural gas in place of coal; increase the supply of natural gas and heighten the proportion of clean energy. The "Report on the Work of the Government (2017)" further specified the following aims: advance structural reform in the power, oil and gas sectors and open their competitive operations to the private sector; make our skies blue again; promote clean winter heating in the northern region, completion of the use of electricity and natural gas in place of coal in more than three million households; prioritise the integration of clean energy sources into the electric grid.

The Ministry of Finance of the PRC promulgated the "Notice regarding the Subsidy Standard for Development and Utilisation of Coalbed Methane (Gas) during the course of the 'Thirteenth Five-Year Plan'" in February 2016, pursuant to which the subsidy for CBM was raised from the original RMB0.20 per cubic metre to RMB0.30 per cubic metre. The Group's CBM contract area in Anhui is located at developed areas in the eastern and coastal regions of the PRC, representing a prominent market advantage. By developing and utilising CBM resources efficiently in the contract area, sustainable and steady returns can be generated as the Group meets the ever-increasing market demand for natural gas.

In 2017, the Group will continue to focus on further collaboration with China United on the exploration and development of the CBM collaborative blocks to gain new progress and breakthrough. First of all, the Group will make preparation for the development of Area A, continue conducting tests on the completion method of new wells as well as choose the best development technique and method and prepare development proposal based on the information of other drilled wells, while commencing trial sale of gas from the exploration wells at the same time. Secondly, conduct exploration work at Area B in an orderly fashion, obtain additional proven reserves through resource evaluation based on the information gathered from drilled wells, drainage and extraction testing and secondary fracturing transformation process, and continue to prepare for the reserves report. Thirdly, commence drilling of nine wells at Area B and obtain additional reserves from expanding into new parts of the area. Fourthly, continue to strengthen the work on geological study for the whole block including the deeper zones, further identify the geological conditions for ore formation and potential resources of coal measures, and provide basis for conducting follow up exploration. Meanwhile, the Group shall also actively implement the tripartite strategic cooperation agreement with Coal Geology Bureau of Henan Province and Henan Provincial Coal Seam Gas Development and Utilisation Co. Ltd., specify cooperation matters, gain government support and strengthen the protection of skills.

## CHAIRMAN'S STATEMENT

In the coming years, the Group will continue to maintain good execution of the cooperation contract entered into with China United, timely seize market opportunities by migrating from exploration to commercial production in an orderly fashion, with an aim to maintain stable production and achieve better returns for the Group.

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

### APPRECIATION

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

**Albert Saychuan Cheok**

*Chairman*

Hong Kong, 28 March 2017



# MANAGEMENT DISCUSSION AND ANALYSIS



## MANAGEMENT DISCUSSION AND ANALYSIS

### FINANCIAL REVIEW

The Group's revenue for the year was HK\$23,518,000 (2015: HK\$58,229,000), representing a decrease of 59.61%. Such decrease of revenue was mainly due to the substantial decrease of contribution from the electronic components business which resulted from the slowdown of the retail market as a whole since late 2014. The revenue generated by the sale of electronic components decreased by 63.13% from HK\$55,299,000 in 2015 to HK\$20,388,000 in 2016, representing 86.69% of the Group's revenue. The CBM exploration and exploitation operating subsidiary and the treasury segment contributed HK\$2,000,000 (2015: HK\$1,951,000) and HK\$1,130,000 (2015: HK\$979,000) to the Group in 2016, representing 8.50% and 4.81% of the Group's revenue respectively. Despite the aforementioned decrease in revenue, the Group managed to record a gross profit of HK\$3,245,000 in 2016, a slight decrease of 5.03% from HK\$3,417,000 in 2015, due to the increased contribution from the treasury segment, i.e. the money lending businesses, with a comparatively higher profit margin.

The Group's loss for the year was HK\$384,535,000 (2015: HK\$424,457,000). Substantial part of the Group's performance was mainly due to the accounting treatments of various items, such as the impairment loss on the PSC amounted to HK\$341,771,000 (2015: HK\$419,819,000), gain on redemption of convertible notes amounted to HK\$1,640,000 (2015: HK\$18,205,000), fair value gain on convertible notes' embedded derivatives amounted to HK\$83,295,000 (2015: HK\$19,472,000), imputed interest on convertible notes amounted to HK\$43,817,000 (2015: HK\$57,529,000), imputed interest on bonds amounted to HK\$11,143,000 (2015: HK\$9,925,000), amortisation of the PSC amounted to HK\$81,839,000 (2015: HK\$104,738,000), net loss on revaluation of financial assets at fair value through profit or loss amounted to HK\$43,333,000 (2015: gain of HK\$42,884,000), net foreign exchange loss amounted to HK\$11,338,000 (2015: HK\$3,271,000), allowance for doubtful debts amounted to HK\$2,422,000 (2015: HK\$10,765,000), depreciation on property, plant and equipment amounted to HK\$12,594,000 (2015: HK\$12,399,000) and the deferred tax credit amounted to HK\$113,856,000 (2015: HK\$121,735,000). The aggregate net result of the abovementioned accounting loss for 2016 is HK\$349,466,000 (2015: HK\$396,445,000). The accounting profit and loss mentioned above did not have actual impact on the cash flow position of the Group.

For comparison purpose, the loss after tax for 2016 and 2015, if excluding those accounting profit and loss, was HK\$35,069,000 and HK\$28,012,000 respectively.

The Group recorded a loss attributable to owners of the Group of approximately HK\$384,448,000 (2015: HK\$423,744,000), and basic and diluted loss per share was approximately HK13.04 cents (2015: HK17.89 cents (restated)). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016.

### LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2016, the Group had current assets of HK\$309,441,000 (2015: HK\$322,187,000) and current liabilities of HK\$150,256,000 (2015: HK\$62,950,000) and cash and bank balances of HK\$142,515,000 (2015: HK\$124,920,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 205.94% (2015: 511.81%). The deterioration of current ratio was mainly due to the bonds with principal amount of HK\$87,000,000 falling due on or before 31 December 2017 as at 31 December 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 42.98% (2015: 33.69%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In September 2016, convertible notes with principal amount of HK\$15,000,000 were redeemed by cash of HK\$14,700,000 with a discount of HK\$300,000 provided by the convertible notes holders.

During the year up to 30 November 2016, being the date of expiry of the bonus warrants issued in December 2015, 687,366,487 new ordinary shares were issued upon the exercise of 687,366,487 units of bonus warrants. Net proceeds of approximately HK\$62,550,000 were raised for the general working capital of the Group and repayment of debts.

During the year ended 31 December 2016, the Company further issued (i) three-year bonds with an aggregate principal amount of HK\$36,000,000 with interest rate of 6% per annum and (ii) three-year bonds with an aggregate principal amount of HK\$11,000,000 with interest rate of 7% per annum. The net proceeds are intended to be used for the development of coalbed methane business carried out in the contract area; and/or repayment of the whole or part of the convertible notes issued by the Company; and/or the general working capital of the Group as well as future business development.

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

### COMMITMENTS

Details of the commitments of the Group are set out in note 32 to the consolidated financial statements.

### EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

### CONTINGENCIES

Save as disclosed in note 33 to the consolidated financial statements, the Group had no other contingencies as at 31 December 2016.

## MANAGEMENT DISCUSSION AND ANALYSIS

### LITIGATION

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

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

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

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

### CHARGE ON ASSETS

The short-term bank deposits, amounted to HK\$180,000, have been pledged as securities for banking facilities granted to the Group for the year ended 31 December 2016.

### BONUS WARRANTS 2015

On 1 December 2015, the Company issued a total of 1,138,635,658 bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on 18 November 2015. The holders of these bonus warrants are entitled to subscribe in cash at any time during the period commencing from 1 December 2015 to 30 November 2016 (both dates inclusive) (the “**Exercise Period**”) for 1,138,635,658 new shares at an initial subscription price of HK\$0.091 per share (subject to adjustment). According to the terms of bonus warrants, on 30 November 2016, the subscription rights attached to the bonus warrants were expired and ceased to be valid for any purpose thereon. During the Exercise Period, net proceeds of approximately HK\$63,196,000 were raised. Subsequent to 31 December 2016 and up to the date of these consolidated financial statements, net proceeds of approximately HK\$36,260,000 were used for the redemption of convertible notes with principal amount of HK\$37,000,000.

### SHARE CONSOLIDATION

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

## MANAGEMENT DISCUSSION AND ANALYSIS

### RIGHTS ISSUE

In March 2017, the Company allotted 1,596,931,140 new ordinary shares on the basis of one rights share for every two consolidated shares at a subscription price of HK\$0.09 per rights share. Net proceeds of approximately HK\$137.69 million are to be utilised for the repayment of the 6% coupon unlisted corporate bonds issued by the Company which will be matured on or before 31 December 2017 and as the general working capital of the Group.

### PROPOSED BONUS WARRANTS 2017

On 7 March 2017, the Company proposed to issue bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on the record date. Holders of these bonus warrants will be entitled to subscribe in cash at any time during the period commencing from the date of the issue of the warrants to the date falling 12 months from the date of the issue of the warrants, which is expected to be from 11 May 2017 to 10 May 2018 (both dates inclusive) for new shares at an initial subscription price of HK\$0.093 per share (subject to adjustment). The bonus warrant issue is subject to the shareholders' approval at the extraordinary general meeting to be held on 12 April 2017.

### EVENTS AFTER THE REPORTING PERIOD

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

### EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group had 75 employees, of which 19 were in Hong Kong and 56 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, mandatory provident fund schemes for employees in Hong Kong and the state-managed employee pension schemes for employees in the PRC.

### MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

The Group had no material acquisition and disposal of subsidiaries during the year ended 31 December 2016.



## BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

### EXECUTIVE DIRECTORS

**CHENG Wai Keung**, aged 51, was appointed as an executive director of the Company in November 2010. He obtained a bachelor's degree in business administration from Hong Kong Baptist University in the early 1990's. Mr. Cheng has over 20 years of experience in Hong Kong financial market. He has extensive experience in investment and securities dealing and held senior positions in sales and marketing of various financial institutions in Hong Kong. Mr. Cheng has been appointed as the public relations manager of the Company since May 2010. He is currently an executive director of Grand Peace Group Holdings Limited ("**Grand Peace**"), the securities of which are listed on the GEM Board of The Stock Exchange of Hong Kong Limited, and was an executive director of Grand Peace for the period from 23 August 2013 to 4 August 2016.

**TAM Tak Wah**, aged 51, was appointed as an executive director and the corporate development director of the Company in September 2009. Mr. Tam is also the authorised representative of the Company. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. He is appointed to membership of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Tam has over 25 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Future World Financial Holdings Limited and is a non-executive director of Kingbo Strike Limited, both companies are listed on the main board of The Stock Exchange of Hong Kong Limited. He was an independent non-executive director of Tech Pro Technology Development Limited during the period from 7 January 2011 to 17 March 2017, an executive director of Skyway Securities Group Limited during the period from 20 July 2015 to 22 November 2016 and an independent non-executive director of Siberian Mining Group Company Limited during the period from 11 June 2007 to 18 February 2014, all of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited.

**TSANG Ching Man**, aged 36, was appointed as an executive director of the Company in August 2009. She is also the company secretary, the authorised representative and the chief financial officer of the Company. Ms. Tsang obtained a Bachelor of Business Administration (Hons) degree in Accountancy from City University of Hong Kong in 2004. She is a member of the Hong Kong Institute of Certified Public Accountants. Ms. Tsang started her career in July 2004 mainly involved in audit assignment in audit firms.

### INDEPENDENT NON-EXECUTIVE DIRECTORS

**CHAN Tsz Kit**, aged 40, was appointed as an independent non-executive director of the Company in September 2009. He is also the chairman and a member of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Chan is a Certified Public Accountant in Hong Kong. He has over ten years of working experience in public accounting and over five years of experience in providing professional services to listed companies in the United States of America. Mr. Chan was a partner in a CPA firm, Albert Wong & Co., from 2007 to 2010 and was the chief financial officer of a company listed on the NASDAQ Exchange in the United States of America during the period from October 2010 to May 2016.

**BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT**

**CHAN Yim Por Bonnie**, aged 50, was appointed as an independent non-executive director of the Company in July 2011. He is also the chairman and a member of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company. Mr. Chan is a solicitor and notary public (practicing) in Hong Kong who was admitted as a solicitor in Hong Kong in 1991 and in England and Wales in 1992. He is currently a member of The Law Society of Hong Kong as well as the Hong Kong Society of Notaries. Mr. Chan obtained a Bachelor's Degree of Laws in 1988 and a Master's Degree of Laws in 1993 and has been practicing as a solicitor in the commercial field in Hong Kong since 1991. He established his own firm, Messrs. Yeung & Chan, Solicitors in 1996 and is now a sole proprietor of the firm. He has been a part time lecturer and tutor of the Postgraduate Certificate in Laws in The University of Hong Kong since 2002 and was admitted as an adjunct lecturer of the HKU School of Professional and Continuing Education in 2009.

**Albert Saychuan CHEOK**, aged 66, was appointed as chairman and independent non-executive director of the Company in July 2013. He is also the chairman and a member of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Mr. Cheok graduated from the University of Adelaide, Australia, with a First Class Honours degree in Economics. He is a Fellow of the CPA Australia and is a banker with over 40 years of experience in banking in the Asia-Pacific region, particularly in Australia, Hong Kong and Malaysia. He was the chairman of Bangkok Bank Berhad in Malaysia for the period from September 1995 to November 2005 and was formerly the Deputy Commissioner of Banking of Hong Kong and an executive director in charge of Banking Supervision at the Hong Kong Monetary Authority. Mr. Cheok is currently a member of the Board of Governors of the Malaysian Institute of Corporate Governance in Malaysia.

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

**WANG Li**, aged 34, was appointed as an independent non-executive director of the Company in September 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics degree from Peking University in 2005 and a Master in Finance degree from the University of St. Andrews, United Kingdom in 2008. He was a research assistant of Skyone Securities Company Limited, a trust manager of CITIC Trust Company Limited and a senior manager of Hongyuan Huizhi Investment Company Limited. Mr. Wang is currently a manager of China Resources SZITIC Trust Company Limited.

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

**LYU Guoping**, aged 52, joined the Group as a project consultant in January 2011 and was appointed as chief executive officer of the Company in addition to his current position in July 2013. He currently also serves as a director and a legal representative of High-Spirited Investment Limited and a supervisor of Shenzhen Clouds Energy Technology Limited, both companies are subsidiaries of the Group in the People's Republic of China (the "PRC"). He graduated from the Wuhan Institute of Geology (currently known as China University of Geosciences (Wuhan)) with a bachelor's degree in geology in 1983 and from the Nankai University with a doctor's degree in economics in 1996. He has over 25 years of experience in geology and mineral exploration, gems and jewelry, journalism and natural resources management in both private and public sectors in the PRC. Prior to joining the Group in January 2011, Mr. Lyu was the deputy general manager of China Resources Coal Holdings Co., Limited and has extensive experience in administration, law and policy, corporate management, asset acquisition and energy exploration.

**DU Ming**, aged 72, has been working in the oil and natural gas industry for more than 45 years. Currently, he is the chief technical officer of the Group. Prior to this, Mr. Du worked at well known oil and gas organisations including China United Coalbed Methane Corporation Limited, China National Petroleum Corporation and Sinopec Shengli Oilfield and took on important technological roles in these companies.

**LIU Shaobin**, aged 73, is an expert in the oilfield science area. With over 45 years of industry experience, Mr. Liu is equipped with enormous knowledge and experience in oil exploration and exploitation techniques. Currently, he is the technical director of Canada Can-Elite Energy Limited, a wholly-owned subsidiary of the Group, vice-chairman of China Petroleum Education Society and honorary director of China Petroleum Enterprise Association. Mr. Liu has taught on the subjects of petroleum and natural gas at China University of Petroleum in Beijing, CNPC Managers Training Institute, Huabei Oilfield Production Technology Research Institute, Huabei Oilfield Finance School and Huabei Oilfield Mechanic School.

**WANG Wengang**, aged 47, has nearly 20 years of experience in project management and operation. Currently, he is the President (PRC Region) of the Group. Prior to joining the Group, Mr. Wang worked as professional investment manager in Tomorrow Holding Limited Company, Topeak Group Investment Company and State Development & Investment Corporation.

# CORPORATE GOVERNANCE REPORT

## CORPORATE GOVERNANCE PRACTICES

The board of directors (the “**Board**” or “**Director(s)**”) of International Standard Resources Holdings Limited (the “**Company**”) is pleased to present this Corporate Governance Report for the year ended 31 December 2016 (the “**Year**”).

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

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

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

## DIRECTORS’ SECURITIES TRANSACTIONS

The Company has adopted a code of conduct regarding the directors’ securities transactions on exactly the terms and required standard contained in the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) set out in Appendix 10 to the Listing Rules. Before the Group’s interim and annual results are announced, notifications are sent to the Directors to remind them not to deal in the securities of the Company during the blackout periods. Having made specific enquiry to all the Directors, they confirmed that they have complied with the required standards set out in the Model Code and its code of conduct regarding directors’ securities transactions throughout the Year.

## BOARD OF DIRECTORS

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

The Board has reviewed, inter alia, the performance and formulated business strategy of the Group during the Year. Also, the Board has reviewed and approved the annual and interim results of the Group for the year ended 31 December 2015 and the six months ended 30 June 2016 respectively.

**CORPORATE GOVERNANCE REPORT****Composition**

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

*Executive Directors:*

Mr. Cheng Wai Keung

Mr. Tam Tak Wah

Ms. Tsang Ching Man

*Independent non-executive Directors:*

Mr. Albert Saychuan Cheok (*Chairman*)

Mr. Chan Tsz Kit

Mr. Chan Yim Por Bonnie

Mr. Wang Li

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

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

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

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

**CORPORATE GOVERNANCE REPORT****Board Meetings**

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

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

Name of Directors	Attendance/Number of	
	Board Meetings	Annual General Meeting
Mr. Cheng Wai Keung	58/58	1/1
Mr. Tam Tak Wah	58/58	1/1
Ms. Tsang Ching Man	58/58	1/1
Mr. Chan Tsz Kit	16/16	1/1
Mr. Chan Yim Por Bonnie	16/16	1/1
Mr. Albert Saychuan Cheok	16/16	1/1
Mr. Wang Li	12/16	0/1

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

**CORPORATE GOVERNANCE REPORT****Chairman and Chief Executive Officer**

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

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

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

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

**Appointments, Re-election and Removal of Directors**

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

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

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

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

Due to personal and/or other overseas commitment, Mr. Wang Li, an INED, did not attend the AGM held on 2 June 2016, which constitutes a deviation from the code provision A.6.7 during the Year. However, at the annual 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.

## CORPORATE GOVERNANCE REPORT

### Board Diversity Policy

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

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

### Directors’ Continuous Training and Development Programme

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

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the Year, all Directors are provided with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements. Some Directors also attended seminars and/or conferences and/or talks organised by professional bodies on topics including corporate governance, Listing Rules updates, legal supervising or financial updates. A summary of training received by Directors during the year ended 31 December 2016 according to the records provided by the Directors is as follows:

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

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

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



**CORPORATE GOVERNANCE REPORT****BOARD COMMITTEE**

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

**Remuneration Committee**

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

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

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

## CORPORATE GOVERNANCE REPORT

### Nomination Committee

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

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

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

### Audit Committee

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

Three meetings were held during the Year. The Audit Committee reviewed (i) the audited financial statements for the year ended 31 December 2015 and unaudited interim financial statements for the six months ended 30 June 2016 of the Group with recommendation to the Board for approval; (ii) the accounting policies adopted by the Group and issues related to accounting practices with the senior management and auditor of the Company, the audit scope and fees, and qualifications, independence and performance of the auditor of the Company; and (iii) the financial reporting system and the internal control and risk management systems of the Group. The attendance record is set out below:

Name of Directors	Attendance/Number of Audit Committee Meetings
Mr. Chan Tsz Kit ( <i>Chairman</i> )	3/3
Mr. Chan Yim Por Bonnie	3/3
Mr. Albert Saychuan Cheok	3/3
Mr. Wang Li	1/3

**CORPORATE GOVERNANCE REPORT****CORPORATE GOVERNANCE FUNCTIONS**

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

- (a) to develop and review the Company's policies and practices on corporate governance;
- (b) to review and monitor the training and continuous professional development of Directors and senior management;
- (c) to review and monitor the Company's policies and practices on compliance with legal and regulatory requirements;
- (d) to develop, review and monitor the code of conduct and compliance manual (if any) applicable to employees and Directors; and
- (e) to review the Company's compliance with the CG Code and disclosures in the Corporate Governance Report.

**INTERNAL CONTROL AND RISK MANAGEMENT**

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

**Internal Control**

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

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

- (a) performed operational audits on business units of the Group to ascertain the adequacy and integrity of their system of internal controls and made recommendations for improvement where weaknesses were found; and
- (b) conducted follow-up review to determine the adequacy, effectiveness and timeliness of actions taken by the management on audit recommendations and provided updates on their status to the Audit Committee.

## CORPORATE GOVERNANCE REPORT

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

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

### **Risk Management**

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

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

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

### **COMPANY SECRETARY**

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

**CORPORATE GOVERNANCE REPORT****FINANCIAL REPORTING****Financial Reporting**

The Directors acknowledge their responsibility for preparing the consolidated financial statements which give a true and fair view of the Group's state of affairs as at 31 December 2016, results and cash flows for the year then ended and in accordance with the Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance; appropriate accounting policies have been selected, consistently used and applied, and reasonable judgements and estimates are properly made. As at 31 December 2016, the Directors, having made appropriate enquiries, are not aware of any material uncertainties relating to events or conditions that may cast significant doubt upon the Company's ability to continue as a going concern. Accordingly, the Directors continue to adopt the going concern approach in preparing the consolidated financial statements. The statement of the auditor of the Company regarding their responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 50 to 55 of this annual report.

**Auditor's Remuneration**

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Statutory audit	<b>570</b>	550
Review of interim results	<b>130</b>	125
Other non-audit services provided for:		
– Open Offer	–	140
– Bonus warrant	–	25

**SHAREHOLDERS' RIGHTS****Enquiries to the Board**

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

## CORPORATE GOVERNANCE REPORT

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

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

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

- (a) shareholders holding at least 2.5% of the total voting rights of all shareholders having the right to vote at the shareholder's meeting; or
- (b) at least 50 shareholders holding shares of the Company having the right to vote at the meeting,

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

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

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

## CORPORATE GOVERNANCE REPORT

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

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

### COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

To promote effective communication, the Company maintains a website at [www.intl-standardresources.com](http://www.intl-standardresources.com), which contains corporation information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Company to enable the Company's shareholders to have timely and updated information of the Company. Shareholders can refer to the “Shareholders Communication Policy” posted on the website of the Company for more details.

### CONSTITUTIONAL DOCUMENTS

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

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

On behalf of the Board  
**Albert Saychuan Cheok**  
*Chairman*

Hong Kong, 28 March 2017

# ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

## I. ABOUT THIS REPORT

This is the first Environment, Social and Governance (“ESG”) Report (the “ESG Report”) for International Standard Resources Holdings Limited (stock code: 91) and its subsidiaries (collectively the “Group”). The purpose of the ESG Report is not only to communicate the Group’s sustainability strategies, management approaches and performances with its stakeholders, but also introduce the Group’s ongoing actions for its sustainable development towards the societies and environment as a whole. The ESG Report summarises the efforts and achievements made by the Group in corporate social responsibility and sustainable development.

The Group hopes to develop its business objectives and creates value for shareholders/investors, while at the same time protects the ecological environment by fully utilising resources and minimising the emission of pollutants during operation. As a corporate citizen, with the expectation to promote the sustainable development of the globe, human being and our business, the Group always maintain a balance between operations and environment by continuously optimising operations management, business strategies and policies on environmental protection, employee development and training, and community investment.

### Scope and Period of Reporting

The ESG Report mainly covers the coalbed methane and electronic component businesses of the Group and presents the Group’s strategic approach to sustainability and performance in the environmental and social aspects of its businesses in the reporting period from 1 January to 31 December 2016. The ESG Report does not cover treasury business as it only accounts for less than 5% of the Group’s revenue. The Group will continue to strengthen its efforts in collecting relevant information in order to enhance its performance in the environmental and social subject areas and to disclose related information in its sustainable development.

### Reporting Guidelines

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



**ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT****II. ENVIRONMENTAL PROTECTION****1. Management of Emissions***Coalbed Methane Business*

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

To implement the national environmental policy and comply with national laws and regulations, the Group has the following measures relating to air and greenhouse gas emissions, discharge of wastewater, and disposal of solid waste:

*(a) Air and greenhouse gas emissions*

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

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT***(b) Discharge of wastewater*

The presence of groundwater is used to maintain high pressure in the coal seam so that methane can be adsorbed into the solid coal matrix. CBM is extracted from the coal seam using hydraulic fracturing technique in which coal or rock layer is fractured by a pressurised liquid. The process involves the high-pressure injection of “fracking fluid” which is primarily water, containing sand or other proppants suspended with the aid of anti-swelling agents. The purpose is to clean out the access to the coal seam and raise its permeability so that CBM can desorb from the coal and flow as a gas up the well to the surface. The water discharged from the coal seam varies slightly in quality from area to area, it may contain highly soluble substances such as potassium, sodium and other salts. To minimise water contamination, the pressurised liquid brought to the surface is initially drained to a reservoir for precipitation which then leaves only a small amount of crystallised sediment in the bottom of the reservoir after the wastewater evaporates. The Group commissioned third party to periodically test the wastewater of the reservoir during the reporting period. The scope of test included pH value, soluble iron, total manganese, total copper, total zinc, nitrate, nitrite, nonionic ammonia, Kjeldahl nitrogen, total phosphorus, potassium permanganate index, dissolved oxygen, chemical oxygen demand and chloride ion, and the test results have met the national standard.

*(c) Disposal of solid wastes*

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

***Electronic Components Business***

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

**ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT****2. Management of Resources Utilisation**

To comply with the relevant laws, regulations and policies on resource conservation, the production departments and offices of the CBM business have set up various measures to raise the awareness of the employees to understand the importance of resource conservation. They are encouraged to make full use of resources, to maximise their effectiveness and to avoid wastage of resources. Although the electronic components business does not involve any production, the employees contribute to environmental protection through various measures in conserving electricity, water and paper at offices.

**(a) Electricity**

Strict requirements regarding electricity use at well site are established. The operating time of electrical equipment within well site is strictly controlled. All electrical equipment and electrical wiring are regularly inspected to keep them in good condition and maximise their energy efficiency. If problem is found, they are repaired or replaced immediately. Complete inspection and maintenance record are maintained.

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

**(b) Water**

Water conservation starts from changing daily habits. Various measures are set up to raise the consciousness of staffs in water conservation. Drinking water cannot be used in other way. Water flow from tap is controlled at low level. Water tap should be turned off when not in use. Water facilities are regularly inspected to keep them in good condition and to avoid leakage resulting in wastage of water. If problem is found, they are repaired or replaced immediately. Complete inspection and maintenance record are maintained.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

(c) **Paper**

The Group hopes to create a paperless office. To implement the principle of “think before printing”, staffs have to be selective about what they print. Paper can be saved by cutting down on the output volume. Staffs are encouraged to read documents in electronic format, rather than paper copies. Space and margin check with the help of printing preview is recommended. Duplex printing is suggested. The single-sided copies are reused for printing drafts. Internal memos and announcement are despatched by e-mail instead of paper memos and faxes. Other operational documents are circulated (if in paper format) or distributed electronically. Recycling bins are installed and clearly labelled to collect waste paper for recycling.

(d) **Office Supplies**

Budget is set for office supplies. Rules are set up for the requisition and use of office supplies. Requisition is centralised to avoid wastage.

(e) **Fuel**

Policies on business car are established to restrict the use of business car and fuel. Measures are set up to reduce fuel consumption like minimising the use of business car, reducing unnecessary despatches and encouraging the use of public transport. Vehicle management personnel and drivers’ skills are trained up and business cars are maintained and inspected regularly to maximise fuel efficiency.

### Compliance

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

### 3. Environment and Natural Resources

Although the impact on the environment and natural resources during the exploration stage of CBM business is not significant, the Group always keeps conscious to actively avoid any incident which might cause damage to the environment, prepare to restore and rescue should such undesirable events happen, and to protect biodiversity and natural habitats.

## III. EMPLOYMENT AND LABOUR PRACTICES

The Group always believes that employees are the most important partners, and the recruitment and retention of employees plays a critical role in the long-term development of the Group. Accordingly, when formulating the human resource strategies, the Group is always devoted to establishing a complete management system that could create a harmonious and comfortable working environment for employees, foster fair, equitable and open competition within the Company, standardise the promotion and advancement process of employees, and provide frequent training to support the development and promotion of employees. Moreover, the Group enriches employees’ spare time through regular training and cultural activities and care about their physical and mental health, and at the same time promote team cohesion.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Talent Selection

The Group always protects human right, privacy of staffs, and prohibits discrimination. The Group follows the principles of fairness and openness to hire outstanding and appropriate talents. Staffs are not discriminated against because of their race, religion, sex, age and disability. During the staff recruitment process, internal staffs are preferably considered, while morality, knowledge, ability, physical fitness and job requirements are used as the selection standards. The Group provides equal opportunities to staffs in promotion, performance appraisal, training and career development so as to ensure all staffs can fully develop their talent at the right position with a hope to grow together and create a win-win situation. Any unethical hiring standards are prohibited, including child labour and forced labour.

### Compensation and Welfare

The Group always upholds harmonious relationship with employees to create a win-win situation. Staff remuneration varies in different districts. Basic remuneration of employees includes salary, bonuses and subsidies (for example overtime, meal, telecommunication and housing allowances, and holiday subsidy, etc.). If illness or disability or death is caused by work injury, the employee is or his/her immediate families are entitled to disability subsidy or one-time benefit in accordance with the national law.

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

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

For the purpose of fulfilling the cultural and entertainment needs of staffs, the Group organises leisure activities regularly such as hiking, karaoke, and birthday dinner. Staffs can be familiar with each other, and enhance communication and cohesion.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Development and Training

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

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

The corporate in Hong Kong provides on-the-job training for its staffs. For new staffs, they obtain an understanding on corporate culture, industry knowledge, job responsibilities, etc. from the personnel department and respective department head. Directors and professionals such as chief financial officer, finance manager, company secretary, etc., participate in external training held by qualified organisations regularly in the form of lecture. During the reporting period, training included environmental, social and governance reporting, risk management, tax, finance, and so on.

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Health and Safety

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

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

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

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

### Compliance

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### IV. OPERATIONAL PRACTICES

#### Supply Chain Management

The Group established a supply chain management system with strict requirements to provide various reporting channels to employees, suppliers, clients and other business parties to report and expose any violations of laws or regulations. During the reporting period, the Group did not have significant issues relating to violations in this respect.

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

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

In the days to come, the Group will keep monitoring the supply chain management process to ensure that the policies and procedures for selection of construction units/suppliers, transportation, logistics and emissions and waste treatment are implemented efficiently to monitor construction/product quality and ensure the construction/product meets the safety and ESG requirements.

#### Product Responsibility

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

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

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



## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### Anti-corruption

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

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

### V. COMMUNITY INVESTMENT

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

On top of these, the Group hopes to promote environmental protection through making donations to the organisations working in that area to build a green world. During the year, the Group donated to environmental organisations such as World Wildlife Fund, Friends of the Earth, World Green Organisation, etc. The Group hopes to raise social consciousness regarding environmental protection, draw public attention to conservation issues, protect natural resources, other species and ecological environment and build a sustainable future for human and nature together with the environmental organisations through their activities.

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

## ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

### VI. SUSTAINABLE DEVELOPMENT AND TARGET ACTIONS FOR 2017

In 2017, the Group has the following plans and objectives to strengthen the ESG performance:

<b>Plan/Objective</b>	<b>Focus</b>
Optimise existing ESG systems and procedures	<ul style="list-style-type: none"><li>• To review the system of collecting ESG information, its integrity and accuracy</li><li>• To establish key performance indicators for environmental protection, and prioritise and schedule the establishment of key performance indicators for other ESG aspects</li><li>• To strengthen communication with stakeholders (including investors, suppliers, customers and society), gather the stakeholders' concerns and conduct in-depth analysis</li></ul>
Increase community investment	<ul style="list-style-type: none"><li>• To give helping hand to people in need</li></ul>

# REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2016.

## PRINCIPAL ACTIVITIES

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

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

## RESULTS AND APPROPRIATIONS

The results of the Group for the year are set out in the consolidated statement of profit or loss on page 56.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2016.

## BUSINESS REVIEW

A fair review of the businesses of the Group, discussion and analysis of the Group's performance during the year and the material factors underlying its financial performance and financial position as well as the principal risks and uncertainties facing the Group, as required by Schedule 5 to the Hong Kong Companies Ordinance, is set out in the section of "Chairman's Statement" and "Management Discussion and Analysis" on pages 2 to 9 and pages 10 to 14 of this annual report and in note 4 and note 6(2) to the consolidated financial statements. These discussions form part of this directors' report.

### Compliance with relevant laws and regulations

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

### Environmental policy

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

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

## REPORT OF THE DIRECTORS

### Relationships with stakeholders

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

### PROPERTY, PLANT AND EQUIPMENT

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

### RESERVES

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity and the movements in the reserves of the Company during the year are set out in note 35 to the consolidated financial statements.

### SHARE CAPITAL

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

### EQUITY-LINKED AGREEMENTS

#### Convertible notes

On 5 February 2015, the Company has entered into the convertible notes restructuring agreement with the noteholder, pursuant to which the noteholder has agreed to a consensual restructuring of its rights and obligations under the convertible notes due 31 December 2015 in the outstanding principal amount of HK\$637,000,000 issued by the Company. The new HK\$637,000,000 2 per cent convertible notes due 31 December 2018 were issued to the noteholder on 20 March 2015. As at 31 December 2016, convertible notes with principal amount of HK\$487,000,000 remained outstanding.

Details of movements in the convertible notes are set out in note 27 to the consolidated financial statements.

**REPORT OF THE DIRECTORS****Share options**

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

**(1) Purpose**

- (a) To recognise and acknowledge the contributions which the eligible participants have made or may make to the Group.
- (b) The Share Option Scheme will provide the eligible participants an opportunity to have a personal stake in the Company with a view to achieve the following objectives:
  - (i) motivate the eligible participants to utilise their performance and efficiency for the benefit of the Group; and
  - (ii) attract and retain or otherwise maintain on-going relationship with the eligible participants whose contributions are or will be beneficial to the long-term growth of the Group.

**(2) Eligible participants**

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

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

## REPORT OF THE DIRECTORS

### (3) Total number of shares available for issue

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

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

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

### (4) Maximum entitlement of each eligible participant

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

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

### (5) Option period

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

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

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

### (7) Payment on acceptance of the Option

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

**REPORT OF THE DIRECTORS****(8) Basis of determining the subscription price**

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

- (i) the closing price of the shares on the date of grant; and
- (ii) the average closing prices of the shares for the five business days immediately preceding the date of grant.

**(9) The remaining life of the Share Option Scheme**

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

As at 31 December 2016, there was no outstanding share option granted to the eligible participants. As at the date of this report, the total number of shares available for issue upon exercise of share options to be granted under the Share Option Scheme is 289,382,589 shares, being 10% of the number of shares in issue on 2 June 2016 and adjusted for the effect of the share consolidation after the reporting period, representing approximately 6.04% of the number of shares of the Company in issue.

**EVENTS AFTER THE REPORTING PERIOD**

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

**DIRECTORS**

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

Albert Saychuan Cheok\* (*Chairman*)

Cheng Wai Keung

Tam Tak Wah

Tsang Ching Man

Chan Tsz Kit\*

Chan Yim Por Bonnie\*

Wang Li\*

\* *independent non-executive Directors*

In accordance with articles 104 and 105 of the articles and association of the Company, Mr. Tam Tak Wah, Mr. Chan Yim Por Bonnie and Mr. Wang Li will retire at the forthcoming annual general meeting and, being eligible, offer themselves for re-election.

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

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

## REPORT OF THE DIRECTORS

### REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the emoluments of each Director and the chief executive of the Company for the year ended 31 December 2016 are set out in note 12 to the consolidated financial statements.

The remuneration of members of the senior management (other than the chief executive of the Company) by band for the year ended 31 December 2016 is set out below:

	Number of individuals	
	2016	2015
<b>Remuneration bands</b>		
Nil to HK\$500,000	2	1
HK\$500,001 to HK\$1,000,000	1	2

### PERMITTED INDEMNITY PROVISION

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

### DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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



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

As at 31 December 2016, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")), as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

**Long positions in shares of the Company**

<b>Name of Director/Chief Executive</b>	<b>Nature of interest</b>	<b>Number of shares (note)</b>	<b>Number of underlying shares (note)</b>	<b>Percentage</b>
Albert Saychuan Cheok	Beneficial	825,000	–	0.01%
Lyu Guoping	Beneficial	500,000	–	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 31 December 2016, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

**ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES**

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

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

As at 31 December 2016, the interests and short positions of the substantial shareholders (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be kept in the register under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares (note 4)	Number of underlying shares (note 4)	Percentage
Che Weng Kei	Beneficial/Corporate	581,062,500	–	9.10%
Good Max Holdings Limited (note 1)	Beneficial	673,067,500	–	10.54%
Leung Yuk Kit (note 1)	Corporate	673,067,500	–	10.54%
New Alexander Limited (note 2)	Beneficial	–	4,870,000,000	76.24%
Woode Investment Limited (note 3)	Beneficial	1,188,382,916	–	18.60%
Woody Yeung (note 3)	Corporate	1,188,382,916	–	18.60%

Notes: (1) 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.

(2) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2018 in an aggregate outstanding principal amount of HK\$487,000,000 as at 31 December 2016.

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

(4) 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 31 December 2016, the Company has not been notified of any other interests or short positions in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

**DIRECTORS' INTERESTS IN COMPETING BUSINESS**

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

**PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY**

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

**MANAGEMENT CONTRACTS**

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

**REPORT OF THE DIRECTORS****MAJOR CUSTOMERS AND SUPPLIERS**

The aggregate revenue during the year attributable to the Group's five largest customers was 90.27% of the Group's total revenue, of which 25.91% was made to the largest customer.

The aggregate purchase during the year attributable to the Group's five largest suppliers was 91.29% of the Group's total purchases, of which 40.26% was made from the largest supplier.

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

**ANNUAL CONFIRMATION OF INDEPENDENCE**

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

**COMPLIANCE WITH THE CODE OF BEST PRACTICE**

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

**SUFFICIENCY OF PUBLIC FLOAT**

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

**AUDITOR**

HLM CPA Limited ("HLM") was first appointed as auditor of the Company on 21 November 2014 upon the resignation of Crowe Horwath (HK) CPA Limited. The consolidated financial statements of the Company for the years ended 31 December 2015 and 2016 were audited by HLM. HLM will retire as auditor at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLM as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board  
**Albert Saychuan Cheok**  
*Chairman*

Hong Kong, 28 March 2017

## INDEPENDENT AUDITOR'S REPORT

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

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### TO THE SHAREHOLDERS OF INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

*(Incorporated in Hong Kong with limited liability)*

#### OPINION

We have audited the consolidated financial statements of International Standard Resources Holdings Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 56 to 141, which comprise the consolidated statement of financial position as at 31 December 2016, and the consolidated statement of profit or loss and the consolidated statement of profit or loss and other comprehensive income, consolidated statement of changes in equity and consolidated statement of cash flows for the year then ended, and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the Hong Kong Companies Ordinance.

#### BASIS FOR OPINION

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

**INDEPENDENT AUDITOR'S REPORT****KEY AUDIT MATTERS**

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

**Key audit matter****How our audit addressed the key audit matter*****Valuation and impairment assessment of intangible assets***

As set out in note 17 to the consolidated financial statements, the Group has HK\$1,372,832,000 of intangible assets (related to production sharing contract) on the consolidated statement of financial position as at 31 December 2016.

Management is required to carry out an annual impairment test, which is judgemental and based on a number of assumptions.

Recoverable amount of the intangible assets is based on forecasting and discounting future cash flows, which are inherently judgemental.

The conclusion of the impairment test was based on a value-in-use model that required significant management estimation with respect to the discount rate and the underlying projected cash flows.

Our audit procedures included, among others:

- detailed testing of directors' impairment assessment for the intangible assets;
- reviewing the discounted cash flow models and assessed the principles and the model adopted;
- critically assessing the Group's key assumptions for its cash flow projections, with reference to internally and externally derived sources and taking into account the Group's historical forecasting accuracy. We assessed the inputs based on our own insights and experience and also used the technical reports prepared by an integrated geoscience and engineering consulting company; and
- evaluating the independent external valuer's competence, capabilities and objectivity.

We found the assumptions made by management and external valuer in relation to the cash flow projection of intangible assets to be reasonable based on available evidence. We found the disclosures in note 17 to the consolidated financial statements to be appropriate.

**INDEPENDENT AUDITOR'S REPORT****Key audit matter*****Valuation of convertible notes – embedded derivatives***

As described in note 27 to the consolidated financial statements, the embedded derivatives portion of convertible notes amounted to HK\$105,841,000 was recorded at fair value in the consolidated statement of financial position which was classified as Level 3 financial instruments in accordance with HKFRS 13.

The accounting estimate of fair value of embedded derivatives portion of convertible notes is determined by an independent valuer.

We considered this as a key audit matter due to the complexity of the valuation model and because model parameters are inherently subject to judgement and estimates applied by management and independent valuer.

***Impairment assessment on other receivables – escrow monies***

As set out in note 22(c) to the consolidated financial statements, the Group has HK\$85,000,000 of escrow monies placed with a firm of solicitors in Hong Kong, K&L Gates, as an escrow agent of the Group. The Group has instituted legal proceedings for the return of the escrow monies plus interest and cost.

We identified this as a key audit matter because the estimation of recoverable amount of the other receivables for escrow monies involves subjective judgements made by managements of the Group and based on legal advice sought.

**How our audit addressed the key audit matter**

Our audit procedures in relation to the valuation of the convertible notes' embedded derivatives included:

- obtain an understanding of the management process for determining fair value measurements and of the relevant control;
- assessing whether the valuation methodology used by the management and external valuer to estimate the fair value of convertible notes' embedded derivatives is appropriate;
- challenging the reasonableness of key assumptions used in the valuation process;
- comparing input data to supporting evidences, such as market indicators and considering the reasonableness of the data adopted; and
- evaluating the independent external valuer's competence, capabilities and objectivity.

Based on available evidence, we found external valuer's and management's key assumptions in relation to the valuation of convertible notes' embedded derivatives to be reasonable. The significant inputs have been appropriately disclosed in note 27 to the consolidated financial statements.

Our audit procedures in relation to management's impairment assessment included:

- assessing the Group's impairment assessment processes for the escrow monies receivables and identifying any impairment indicators with consideration of the discounting impact;
- assessing the recoverability of the escrow monies placed by checking the financial position of the counterparty; and
- obtaining representations from external legal advisors regarding the likely outcome of the claims.

We consider management's conclusion to be consistent with the available information.

**INDEPENDENT AUDITOR'S REPORT****Key audit matter*****Impairment assessment of trade receivables***

As described in note 22 to the consolidated financial statements, allowance for doubtful debts recorded at 31 December 2016, which represented management's estimates of the amounts, potentially irrecoverable, which amounted to HK\$13,516,000, are excluded from the balance of trade receivables.

The Group's allowance for doubtful debts are based on management's estimate of the expected credit losses to be incurred, which is estimated by taking into account the current market condition, the credit history of the Group's customers and customer-specific conditions.

We have identified allowance for doubtful debts as a key audit matter because the estimates on which these provisions entails a significant degree of management judgement and may be subject to management bias.

**How our audit addressed the key audit matter**

Our audit procedures in relation to management's impairment assessment of trade receivables included:

- assessing and testing on the process used by management to develop the estimate for the impairment of trade receivables;
- reviewing the ageing analysis which we sample tested;
- inquiring management, on sample basis, about the recoverability of individual substantial balances and evaluating the allowance for doubtful debts made by management for these individual balances with reference to the ageing of overdue balances and historical and past year ended settlement records; and
- reviewing the subsequent settlement of trade receivables which provide audit evidence of the reasonableness of the estimate made.

Based on the audit evidence obtained and procedures performed, we found the judgements and estimates for the provision of impairment of trade receivables as at 31 December 2016 was supportive and reasonable.

**OTHER INFORMATION**

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

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

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

## INDEPENDENT AUDITOR'S REPORT

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

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

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

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

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

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

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

- identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.



**INDEPENDENT AUDITOR'S REPORT**

- conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

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

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

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

**HLM CPA Limited**

*Certified Public Accountants*

**Ho Pak Tat**

Practising Certificate Number: P05215

Hong Kong

28 March 2017

**CONSOLIDATED STATEMENT OF PROFIT OR LOSS**

FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Revenue	7	23,518	58,229
Cost of sales		<u>(20,273)</u>	<u>(54,812)</u>
Gross profit		3,245	3,417
Other income	8	2,293	3,432
Other gains and losses	9	28,592	93,943
Administrative expenses		(53,885)	(54,508)
Amortisation of production sharing contract	17	(81,839)	(104,738)
Impairment loss on production sharing contract	17	<u>(341,771)</u>	<u>(419,819)</u>
<b>Loss from operations</b>		<b>(443,365)</b>	<b>(478,273)</b>
Finance costs	10	<u>(54,960)</u>	<u>(67,454)</u>
<b>Loss before tax</b>	11	<b>(498,325)</b>	<b>(545,727)</b>
Income tax	14	<u>113,790</u>	<u>121,270</u>
<b>Loss for the year</b>		<b><u>(384,535)</u></b>	<b><u>(424,457)</u></b>
Attributable to:			
Owners of the Company		(384,448)	(423,744)
Non-controlling interests		<u>(87)</u>	<u>(713)</u>
		<b><u>(384,535)</u></b>	<b><u>(424,457)</u></b>
			(Restated)
<b>Loss per share</b>	15		
Basic and diluted (cents per share)		<b><u>(13.04)</u></b>	<b><u>(17.89)</u></b>

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

FOR THE YEAR ENDED 31 DECEMBER 2016

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Loss for the year</b>	<u>(384,535)</u>	<u>(424,457)</u>
<b>Other comprehensive expense</b>		
<i>Items that may be reclassified subsequently to profit or loss:</i>		
Exchange differences on translation of foreign operations	<u>(82,841)</u>	<u>(89,845)</u>
<b>Other comprehensive expense for the year, net of income tax</b>	<u>(82,841)</u>	<u>(89,845)</u>
<b>Total comprehensive expenses for the year</b>	<u><u>(467,376)</u></u>	<u><u>(514,302)</u></u>
Attributable to:		
Owners of the Company	<u>(467,289)</u>	<u>(513,589)</u>
Non-controlling interests	<u>(87)</u>	<u>(713)</u>
	<u><u>(467,376)</u></u>	<u><u>(514,302)</u></u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>			
Property, plant and equipment	16	89,315	93,194
Intangible assets	17	1,372,832	1,915,274
Available-for-sale financial assets	19	1,000	1,000
		<u>1,463,147</u>	<u>2,009,468</u>
<b>Current assets</b>			
Loan receivables	20	4,129	11,570
Financial assets at fair value through profit or loss	21	70,085	85,373
Trade and other receivables	22	92,712	100,324
Cash and bank balances	23	142,515	124,920
		<u>309,441</u>	<u>322,187</u>
<b>Current liabilities</b>			
Other borrowing, unsecured	24	11,265	12,908
Trade and other payables	25	51,414	46,363
Bonds	26	83,897	–
Tax payables	14(c)	3,680	3,679
		<u>150,256</u>	<u>62,950</u>
<b>Net current assets</b>		<u>159,185</u>	<u>259,237</u>
<b>Total assets less current liabilities</b>		<u>1,622,332</u>	<u>2,268,705</u>

**CONSOLIDATED STATEMENT OF FINANCIAL POSITION**

AT 31 DECEMBER 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current liabilities</b>			
Bonds	26	67,079	104,197
Convertible notes – liability portion, unsecured	27	403,190	376,402
Convertible notes – embedded derivatives, unsecured	27	105,841	193,493
Deferred tax liabilities	14(d)	344,657	488,222
		<u>920,767</u>	<u>1,162,314</u>
<b>Net assets</b>		<u><b>701,565</b></u>	<u>1,106,391</u>
<b>Capital and reserves</b>			
Share capital	28	1,894,252	1,831,702
Reserves		<u>(1,188,726)</u>	<u>(721,437)</u>
Equity attributable to owners of the Company		705,526	1,110,265
Non-controlling interests		<u>(3,961)</u>	<u>(3,874)</u>
<b>Total equity</b>		<u><b>701,565</b></u>	<u>1,106,391</u>

The consolidated financial statements on pages 56 to 141 were approved and authorised for issue by the board of directors on 28 March 2017 and are signed on its behalf by:

**Ms. Tsang Ching Man, DIRECTOR**

**Mr. Tam Tak Wah, DIRECTOR**

**CONSOLIDATED STATEMENT OF CHANGES IN EQUITY**

FOR THE YEAR ENDED 31 DECEMBER 2016

	Attributable to the owners of the Company				Total	Non-controlling interests	Total equity
	Share capital	Special capital reserve	Exchange reserve	Accumulated losses			
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
		(note 36(a))	(note 36(b))				
At 1 January 2015	1,552,433	579,799	285,427	(1,073,074)	1,344,585	(3,161)	1,341,424
Loss for the year	–	–	–	(423,744)	(423,744)	(713)	(424,457)
Other comprehensive expense for the year	–	–	(89,845)	–	(89,845)	–	(89,845)
Total comprehensive expenses for the year	–	–	(89,845)	(423,744)	(513,589)	(713)	(514,302)
Issue of shares upon conversion of convertible notes	44,047	–	–	–	44,047	–	44,047
Issue of shares upon exercise of warrants	53,810	–	–	–	53,810	–	53,810
Issue of new shares upon open offer	181,412	–	–	–	181,412	–	181,412
At 31 December 2015 and 1 January 2016	1,831,702	579,799	195,582	(1,496,818)	1,110,265	(3,874)	1,106,391
Loss for the year	–	–	–	(384,448)	(384,448)	(87)	(384,535)
Other comprehensive expense for the year	–	–	(82,841)	–	(82,841)	–	(82,841)
Total comprehensive expenses for the year	–	–	(82,841)	(384,448)	(467,289)	(87)	(467,376)
Issue of shares upon exercise of warrants	62,550	–	–	–	62,550	–	62,550
At 31 December 2016	<u>1,894,252</u>	<u>579,799</u>	<u>112,741</u>	<u>(1,881,266)</u>	<u>705,526</u>	<u>(3,961)</u>	<u>701,565</u>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Operating activities</b>			
Loss before tax		(498,325)	(545,727)
Adjustments for:			
Interest income	8	(453)	(609)
Finance costs	10	54,960	67,454
Dividend income	8	(1,296)	(1,472)
Fair value change of convertible notes – embedded derivatives	9	(83,295)	(19,472)
Gain on disposal of financial assets at fair value through profit or loss	9	(762)	(7,713)
Net loss (gain) on revaluation of financial assets at fair value through profit or loss	9	43,333	(42,884)
Depreciation of property, plant and equipment	16	12,594	12,399
Reversal of interest accrued	8	(532)	(532)
Allowance for doubtful debts	9	2,422	10,765
Amortisation of production sharing contract	17	81,839	104,738
Impairment loss on production sharing contract	17	341,771	419,819
Gain on restructuring of convertible notes	9	–	(19,705)
Gain on redemption of convertible notes	9	(1,640)	(18,205)
Loss on property, plant and equipment written off	9	12	–
		<hr/>	<hr/>
Operating cash flow before movements in working capital		(49,372)	(41,144)
(Increase) decrease in financial assets at fair value through profit or loss		(27,283)	3,816
Decrease (increase) in loan receivables		7,441	(11,570)
Decrease (increase) in trade and other receivables		5,190	(10,540)
Increase in trade and other payables		6,702	618
		<hr/>	<hr/>
Cash used in operations		(57,322)	(58,820)
Income tax paid		(65)	(80)
Interest received		453	609
		<hr/>	<hr/>
<b>Net cash used in operating activities</b>		<b>(56,934)</b>	<b>(58,291)</b>

**CONSOLIDATED STATEMENT OF CASH FLOWS**

FOR THE YEAR ENDED 31 DECEMBER 2016

	<i>Notes</i>	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Investing activities</b>			
Dividend received		1,296	1,472
Purchase of property, plant and equipment		<u>(14,724)</u>	<u>(40,363)</u>
<b>Net cash used in investing activities</b>		<u>(13,428)</u>	<u>(38,891)</u>
<b>Financing activities</b>			
Proceeds from issue of new shares upon open offer, net of share issuance costs		–	181,412
Proceeds from issue of shares upon exercise of warrants		62,550	53,810
Proceeds from issue of bonds		42,930	21,600
Interest paid		(12,340)	(18,874)
Repayment for other borrowing		(855)	(718)
Payment for redemption of convertible notes		<u>(14,700)</u>	<u>(133,000)</u>
<b>Net cash generated from financing activities</b>		<u>77,585</u>	<u>104,230</u>
<b>Net increase in cash and cash equivalents</b>		7,223	7,048
Cash and cash equivalents at beginning of year		124,740	109,752
Effect of foreign exchange rate changes		<u>10,372</u>	<u>7,940</u>
Cash and cash equivalents at end of year	23	<u><u>142,335</u></u>	<u><u>124,740</u></u>



# NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 1. GENERAL INFORMATION

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

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

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

## 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”)

### Amendments to HKFRSs that are mandatorily effective for the current year

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

Amendments to HKFRSs	Annual Improvements to HKFRSs 2012 – 2014 Cycle
Amendments to HKFRS 10, HKFRS 12 and HKAS 28 (2011)	Investment Entities: Applying the Consolidation Exception
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS (“HKFRSs”) (Continued)****New and amendments to HKFRSs in issue but not yet effective**

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

HKFRS 9	Financial Instruments <sup>2</sup>
HKFRS 15	Revenue from Contracts with Customers and the related Amendments <sup>2</sup>
HKFRS 16	Leases <sup>3</sup>
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions <sup>2</sup>
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts <sup>2</sup>
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture <sup>4</sup>
Amendments to HKAS 7	Disclosure Initiative <sup>1</sup>
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrealised Losses <sup>1</sup>

<sup>1</sup> Effective for annual periods beginning on or after 1 January 2017.

<sup>2</sup> Effective for annual periods beginning on or after 1 January 2018.

<sup>3</sup> Effective for annual periods beginning on or after 1 January 2019.

<sup>4</sup> Effective for annual periods beginning on or after a date to be determined.

**HKFRS 9 Financial Instruments**

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS****(“HKFRSs”) (Continued)****HKFRS 9 Financial Instruments (Continued)**

Key requirements of HKFRS 9:

- all recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms that give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are generally measured at FVTOCI. All other debt investments and equity investments are measured at their fair value at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.
- with regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability’s credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value attributable to a financial liability’s credit risk are not subsequently reclassified to profit or loss. Under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss is presented in profit or loss.
- in relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.
- the new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity’s risk management activities have also been introduced.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS

(“HKFRSs”) (*Continued*)

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

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

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

### 3. SIGNIFICANT ACCOUNTING POLICIES

#### (a) Statement of compliance

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

#### (b) Basis of preparation of the consolidated financial statements

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(b) Basis of preparation of the consolidated financial statements (Continued)**

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

The principal accounting policies are set out below.

**(c) Basis of consolidation**

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

#### (c) Basis of consolidation (*Continued*)

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

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

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

#### (d) Interests in joint operations

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(d) Interests in joint operations (Continued)**

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

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

**(e) Revenue recognition**

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

#### (f) Leasing

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

#### *The Group as lessee*

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

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

#### (g) Foreign currencies

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

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

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(h) Borrowing costs**

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

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

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

**(i) Employee benefits*****Retirement benefit costs and termination benefits***

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

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

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

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

***Short-term employee benefits***

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

##### *Share-based payments arrangements*

##### *Share options granted to employees*

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in equity (share options reserve). At the end of each reporting period, the Group revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to the share options reserve.

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

#### (j) Exploration and evaluation expenditure

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Income tax**

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(k) Income tax (Continued)**

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

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

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(m) Intangible assets**

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

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

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

– Production sharing contract 22.9 years

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

At the end of the reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash-generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

#### (o) Inventories

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

#### (p) Provisions and contingent liabilities

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

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

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

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

#### (q) Cash and cash equivalents

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(r) Related parties**

- (a) A person, or a close member of that person's family, is related to the Group if that person:
- (i) has control or joint control of the Group;
  - (ii) has significant influence over the Group; or
  - (iii) is a member of the key management personnel of the Group or of the parent of the Group.
- (b) An entity is related to the Group if any of the following conditions applies:
- (i) The entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others).
  - (ii) One entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group of which the other entity is a member).
  - (iii) Both entities are joint ventures of the same third party.
  - (iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.
  - (v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.
  - (vi) The entity is controlled or jointly controlled by a person identified in (a).
  - (vii) A person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of the parent of the entity).
  - (viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or to the parent of the Group.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

#### (s) Segment reporting

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

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

#### (t) Financial instruments

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

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

#### *Financial assets*

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

#### *Effective interest method*

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

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(t) Financial instruments (Continued)*****Financial assets (Continued)******Financial assets at FVTPL***

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

A financial asset is classified as held for trading if:

- it has been acquired principally for the purpose of selling in the near term; or
- on initial recognition it is a part of a portfolio of identified financial instruments that the Group manages together and has a recent actual pattern of short-term profit-taking; or
- it is a derivative that is not designated and effective as a hedging instrument.

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

- such designation eliminates or significantly reduces a measurement or recognition inconsistency that would otherwise arise; or
- the financial asset forms part of a group of financial assets or financial liabilities or both, which is managed and its performance is evaluated on a fair value basis, in accordance with the Group's documented risk management or investment strategy, and information about the grouping is provided internally on that basis; or
- it forms part of a contract containing one or more embedded derivatives, and HKAS 39 permits the entire combined contract (asset or liability) to be designated as at FVTPL.

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

##### *Financial assets (Continued)*

##### *AFS financial assets*

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

Equity and debt securities held by the Group that are classified as AFS financial assets and are traded in an active market are measured at fair value at the end of each reporting period. Changes in the carrying amount of AFS monetary financial assets relating to interest income, calculated using the effective interest method, are recognised in profit or loss. Dividends on AFS equity instruments are recognised in profit or loss when the Group's right to receive the dividends is established. Other changes in the carrying amount of AFS financial assets are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the investment is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

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

##### *Loans and receivables*

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(t) Financial instruments (Continued)*****Financial assets (Continued)******Impairment of financial assets***

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

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

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

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

##### *Financial assets (Continued)*

##### *Impairment of financial assets (Continued)*

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

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

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

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

##### *Financial liabilities and equity instruments*

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

##### *Equity instruments*

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**3. SIGNIFICANT ACCOUNTING POLICIES (Continued)****(t) Financial instruments (Continued)***Financial liabilities and equity instruments (Continued)**Financial liabilities*

## Effective interest method

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

## Financial liabilities at amortised cost

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

## Warrants

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

## Convertible notes contain debt and derivative components

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

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

##### *Financial liabilities and equity instruments (Continued)*

##### *Derivative financial instruments*

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

##### *Embedded derivatives*

Derivatives embedded in non-derivative host contracts are treated as separate derivatives when they meet the definition of a derivative, their risks and characteristics are not closely related to those of the host contracts and the host contracts are not measured at FVTPL.

##### *Derecognition*

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

**Key sources of estimation uncertainty**

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

**(a) Impairment of property, plant and equipment**

The Group tests at least annually whether assets that have definite useful lives have suffered any impairment. Other assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount of the asset exceeds its recoverable amount. The recoverable amounts of assets or cash-generating units have been determined based on value-in-use calculations. These calculations require the use of estimates, such as discount rates, future profitability and growth rates. Where the actual future cash flows are less than expected, a material impairment loss may arise.

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

As disclosed in note 22(c) to the consolidated financial statements, there was escrow monies of HK\$85,000,000 placed in the escrow accounts of an escrow agent. The Group has instituted legal proceedings for the return of these escrow monies. As referred to in note 33(a) to the consolidated financial statements, based on the legal opinion sought, the directors of the Company are of the view that no impairment loss is required to be recognised on the escrows monies as at 31 December 2016. However, in the event that the litigations were unfavourable and the actual future cash inflows were less than expected, an impairment loss may arise in future period.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

*(Continued)*

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

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

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

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

##### *(d) Impairment of trade and other receivables*

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



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY***(Continued)***Key sources of estimation uncertainty (Continued)****(e) Useful life and amortisation of intangible asset – production sharing contract (“PSC”)**

The PSC is amortised on a straight-line basis over the remaining contract terms of 22.9 years to 31 March 2038. The management determines the estimated useful lives and basis for amortisation for its PSC taking into account factors including but not limited to, contractual terms of respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service of the assets. The estimation of the useful life and the basis for amortisation is a matter of judgement based on the experience of the Group. Management reviews the estimated useful life and the basis for amortisation of intangible asset annually, and if expectations are significantly different from previous estimate of useful economic life, the basis and rate of amortisation for future periods will be adjusted accordingly.

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

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

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

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

The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of CBM in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves under the terms of the PSC. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of intangible assets relating to the PSC at 31 December 2016 is shown in note 17 to the consolidated financial statements.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY***(Continued)***Key sources of estimation uncertainty (Continued)****(f) Estimate for resources and/or reserves of coalbed methane (“CBM”) under the PSC (Continued)**

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

- the carrying value of intangible asset relating to the PSC may be affected due to changes in estimated future cash flows;
- depreciation, depletion and amortisation charged in the consolidated statement of profit or loss may change as such charges are determined by reference to the units of production basis or the estimated useful economic lives of the assets;
- provisions for decommissioning site restoration and environmental provisions may change where changes in estimated reserves affect expectations about the timing or cost of these activities; and
- the carrying value of deferred tax liabilities may change as a result of changes in the asset carrying values as discussed above.

**(g) Impairment of intangible asset – PSC**

The estimated recoverable amount of the PSC (note 17) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by an independent firm of professional qualified valuers using income approach valuation methodology, which involves the value-in-use calculations with reference to the technical assessment reports issued by Netherland, Sewell & Associates, Inc. and the latest internal reserve assessment. Both the valuers and technical advisor are not connected with the Group and with appropriate qualifications and relevant experience in the industry. The Group has estimated the future cash flows and profit forecasts expected to be generated from the PSC as a cash-generating unit and a risk-adjusted discount rate in order to calculate the present value. The Group’s CBM business under the PSC is currently at its early stage of development. The cash flow and profit forecast projections involve significant judgement and estimates on the accuracy of the assumptions for the projections and estimates of, including but not limited to, government policies, the growth rate, the extent of the future market competition, market demand, and cost structure of CBM products that the Group will achieve during the forecast period.

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY***(Continued)***Key sources of estimation uncertainty (Continued)****(h) Exploration and evaluation expenditures**

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

**Critical accounting judgement in applying the Group's accounting policies****(i) Functional currency**

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

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

The fair value of the embedded derivatives portion of the convertible notes that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible notes based on an independent professional valuations using the binomial lattice model which requires various sources of information and assumptions. The carrying amount of embedded derivatives portion of the convertible notes as at 31 December 2016 was HK\$105,841,000 (2015: HK\$193,493,000). Further details are disclosed in note 27 to the consolidated financial statements.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 5. CAPITAL MANAGEMENT

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

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

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

The gearing ratio at 31 December 2016 and 2015 was as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Convertible notes	<b>509,031</b>	569,895
Bonds	<b>150,976</b>	104,197
Other borrowing	<b>11,265</b>	12,908
Less: Cash and bank balances	<b>(142,515)</b>	(124,920)
Total net debt	<b>528,757</b>	562,080
Total equity	<b>701,565</b>	1,106,391
Total capital	<b>1,230,322</b>	1,668,471
Gearing ratio	<b>42.98%</b>	33.69%

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**6. FINANCIAL INSTRUMENTS****(1) Categories of financial instruments**

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
<b>Financial assets</b>		
Available-for-sale financial assets	<b>1,000</b>	1,000
Financial assets at fair value through profit or loss	<b>70,085</b>	85,373
Loan and other receivables (including cash and bank balances)	<b>237,294</b>	235,623
	<b>308,379</b>	321,996
<b>Financial liabilities</b>		
Bonds	<b>150,976</b>	104,197
Convertible notes – liability portion, unsecured	<b>403,190</b>	376,402
Convertible notes – embedded derivatives, unsecured	<b>105,841</b>	193,493
Other financial liabilities	<b>52,899</b>	54,291
	<b>712,906</b>	728,383

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

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

##### (a) *Foreign currency risk*

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

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

##### (b) *Other price risk*

The Group is exposed to equity price risk from changes in the Company’s own share price to the extent that the Company’s own equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period, the Group is exposed to this risk through the conversion rights attached to the convertible notes issued by the Company as disclosed in note 27 to the consolidated financial statements.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**6. FINANCIAL INSTRUMENTS (Continued)****(2) Financial risk management objectives and policies (Continued)****(b) Other price risk (Continued)***Sensitivity analysis*

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

If the prices of the respective equity instruments had been 10% higher/lower (2015: 10% higher/lower):

- post-tax loss for the year ended 31 December 2016 would decrease/increase by approximately HK\$7,009,000 (2015: decrease/increase by approximately HK\$8,537,000) as a result of the changes in fair value of held-for-trading investments.

**(c) Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Group is exposed to cash flow interest rate risk in relation to the bank balances due to the fluctuation of the prevailing market interest rates for the years ended 31 December 2016 and 2015.

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

*Sensitivity analysis*

As at 31 December 2016 and 2015, if the interest rates on bank deposits had been 100 basis points higher/lower with all other variables held constant, the Group's loss for the year would decrease/increase by approximately HK\$1,425,000 (2015: HK\$1,249,000).

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

##### *(d) Credit risk*

As at 31 December 2016, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of each class of recognised financial assets as stated in the consolidated statement of financial position.

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

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

In respect of loan receivables arising from the Group's money lending business, all of the loan receivables were secured by pledged properties or vehicles. The directors of the Company closely monitor the risk exposure of the customers and collateral and would take appropriate action to ensure the risk exposure is acceptable. The directors of the Company are of the view that the expected cash flow of loan receivables is sufficient to cover the carrying amount of loan receivables as at 31 December 2016.

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

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



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 6. FINANCIAL INSTRUMENTS (Continued)

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

## (e) Liquidity risk

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

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

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

	2016						2015					
	Weight average interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount	Weight average interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount
	HK\$'000 %	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000 %	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Other borrowings	11,265	-	11,265	11,265	-	-	12,908	-	12,908	12,908	-	-
Trade and other payables	41,634	-	41,634	41,634	-	-	41,383	-	41,383	41,383	-	-
Bonds	150,976	6.1%	174,051	96,490	27,112	50,449	104,197	6.0%	125,536	6,730	93,560	25,246
Convertible notes (including embedded derivatives)	509,031	2.0%	506,480	9,740	496,740	-	569,895	2.0%	532,120	10,040	10,040	512,040
	<u>712,906</u>		<u>733,430</u>	<u>159,129</u>	<u>523,852</u>	<u>50,449</u>	<u>728,383</u>		<u>711,947</u>	<u>71,061</u>	<u>103,600</u>	<u>537,286</u>

## (f) Oil and gas price risk

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**6. FINANCIAL INSTRUMENTS (Continued)****(3) Fair value measurement****(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis**

Some of the Group's financial assets and financial liabilities are measured at fair value at the end of each reporting period. The following table presents the fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, categorised into the three-level fair value hierarchy as defined in HKFRS 13, Fair value measurement.

	<b>Level 1</b> <i>HK\$'000</i>	<b>Level 2</b> <i>HK\$'000</i>	<b>Level 3</b> <i>HK\$'000</i>
<b>2016</b>			
<b>Financial assets</b>			
– Financial assets at fair value through profit or loss ( <i>note 21</i> )	70,085	–	–
– Available-for-sale financial assets ( <i>note 19</i> )	–	–	1,000
<b>Financial liabilities</b>			
– Convertible notes-embedded derivatives, unsecured ( <i>note 27</i> )	–	–	105,841
	<u>70,085</u>	<u>–</u>	<u>106,841</u>
<b>2015</b>			
<b>Financial assets</b>			
– Financial assets at fair value through profit or loss ( <i>note 21</i> )	85,373	–	–
– Available-for-sale financial assets ( <i>note 19</i> )	–	–	1,000
<b>Financial liabilities</b>			
– Convertible notes-embedded derivatives, unsecured ( <i>note 27</i> )	–	–	193,493
	<u>85,373</u>	<u>–</u>	<u>194,493</u>

During the years ended 31 December 2016 and 2015, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**6. FINANCIAL INSTRUMENTS (Continued)****(3) Fair value measurement (Continued)****(a) Fair value of the Group's financial assets and financial liabilities that are measured at fair value on a recurring basis (Continued)***Information about Level 1 fair value measurements*

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

*Information about Level 3 fair value measurements*

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is credit spread. The fair value measurement is positively correlated to the credit spread. As at 31 December 2016, the credit spread used in the valuation is 14.45%, and it is estimated that with all other variables held constant, an increase/decrease of 10% points in the credit spread would have increased/decreased the Group's loss by HK\$9,200,000/HK\$9,551,000 (2015: increase/decrease the Group's loss by HK\$14,238,000/HK\$15,195,000).

The movements during the year in the balances of the Level 3 fair value measurement for the conversion option embedded in convertible notes are disclosed in note 27 to the consolidated financial statements. Fair value gain on conversion option embedded in convertible notes is credited to the consolidated statement of profit or loss. Of the total gains or losses for the year in the profit or loss, fair value gain of HK\$83,295,000 (2015: HK\$19,472,000) related to conversion option embedded in convertible notes for the reporting period. The fair value of the available-for-sale financial assets (note 19) was estimated by the directors of the Company with reference to the expected value to be realised.

**(b) Fair value of financial assets and financial liabilities that are not measured on a recurring basis**

The fair values of trade and other receivables, cash and bank balances, other borrowing and trade and other payables approximate to their carrying amounts due to the short-term maturities of these assets and liabilities.

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

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 7. REVENUE AND SEGMENT REPORTING

#### (a) Revenue

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

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Sale of electronic components	<b>20,388</b>	55,299
Sale of coalbed methane products	<b>2,000</b>	1,951
Interest income from money lending	<b>1,130</b>	979
	<b>23,518</b>	58,229

#### (b) Segment information

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

- Electronic components
- Coalbed methane
- Treasury (i.e. securities trading and money lending)

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**7. REVENUE AND SEGMENT REPORTING (Continued)****(b) Segment information (Continued)****(i) Segment results, assets and liabilities**

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

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

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

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

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the years ended 31 December 2016 and 2015 is set out below:

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

Year ended 31 December 2016

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 7. REVENUE AND SEGMENT REPORTING (Continued)

## (b) Segment information (Continued)

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

Year ended 31 December 2015

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Revenue</b>		
Reportable segment revenue	23,518	58,229
Elimination of inter-segment revenue	—	—
Consolidated revenue	<u>23,518</u>	<u>58,229</u>
<b>Profit or loss</b>		
Reportable segment results	(460,656)	(509,274)
Other income	349	603
Other gains and losses	(1,785)	(1,697)
Unallocated head office and corporate expenses	(36,233)	(35,359)
Consolidated loss before tax	<u>(498,325)</u>	<u>(545,727)</u>
<b>Assets</b>		
Reportable segment assets	1,655,465	2,233,875
Unallocated head office and corporate assets	117,123	97,780
Consolidated total assets	<u>1,772,588</u>	<u>2,331,655</u>
<b>Liabilities</b>		
Reportable segment liabilities	562,071	622,970
Tax payable	3,680	3,679
Deferred tax liabilities	344,657	488,222
Unallocated head office and corporate liabilities	160,615	110,393
Consolidated total liabilities	<u>1,071,023</u>	<u>1,225,264</u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**7. REVENUE AND SEGMENT REPORTING (Continued)****(b) Segment information (Continued)****(iii) Geographical information**

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

	<b>Hong Kong</b> <i>HK\$'000</i>	<b>PRC</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
<b>2016</b>			
Revenue	21,518	2,000	23,518
Specified non-current assets	1,856	1,461,291	1,463,147
	<u>          </u>	<u>          </u>	<u>          </u>
<b>2015</b>			
Revenue	56,278	1,951	58,229
Specified non-current assets	1,777	2,007,691	2,009,468
	<u>          </u>	<u>          </u>	<u>          </u>

**(iv) Information about major customers**

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Customer A*	N/A	10,623
Customer B*	N/A	25,347
Customer C	5,895	6,867
Customer D*	N/A	8,422
Customer E**	6,094	N/A
Customer F**	4,096	N/A
Customer G***	3,144	N/A
	<u>          </u>	<u>          </u>

\* Customer A, B and D contributed less than 10% of the Group's total revenue for the year ended 31 December 2016.

\*\* Customer E and F are new customers in 2016.

\*\*\* Customer G contributed less than 10% of the Group's total revenue for the year ended 31 December 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 8. OTHER INCOME

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Interest income	453	609
Dividend income	1,296	1,472
Reversal of interest accrued ( <i>note</i> )	532	532
Sundry income	12	819
	<u>2,293</u>	<u>3,432</u>

*Note:*

As disclosed in notes 17 and 24 to the consolidated financial statements, the independent third party agreed to waive all accrued interest of approximately HK\$6,834,000 (equivalent to RMB6,008,000) due by Canada Can-Elite Energy Limited ("Can-Elite"), a wholly-owned subsidiary of the Company, and China United Coalbed Methane Corporation Limited ("China United") as at 31 December 2008, of which Can-Elite shared approximately HK\$4,784,000 (equivalent to RMB4,206,000) based on the PSC. The accrued interest waived is amortised over the contractual period of 9 years during which a discount on sale of CBM products is given to that independent third party.

### 9. OTHER GAINS AND LOSSES

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Allowance for doubtful debts	(2,422)	(10,765)
Fair value change of convertible notes – embedded derivatives	83,295	19,472
Gain on disposal of financial assets at fair value through profit or loss	762	7,713
Gain on redemption of convertible notes	1,640	18,205
Gain on restructuring of convertible notes	–	19,705
Loss on property, plant and equipment written off	(12)	–
Net (loss) gain on revaluation of financial assets at fair value through profit or loss	(43,333)	42,884
Net foreign exchange loss	(11,338)	(3,271)
	<u>28,592</u>	<u>93,943</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**10. FINANCE COSTS**

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Imputed interest on convertible notes	<b>43,817</b>	57,529
Imputed interest on bonds	<b>11,143</b>	9,925
	<b>54,960</b>	67,454

**11. LOSS BEFORE TAX**

Loss before tax is arrived at after charging:

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
(a) Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	<b>23,420</b>	24,268
Contributions to defined contribution retirement plans	<b>1,861</b>	1,590
Total staff costs	<b>25,281</b>	25,858
(b) Other items		
Allowance for doubtful debts	<b>2,422</b>	10,765
Amortisation of production sharing contract	<b>81,839</b>	104,738
Auditor's remuneration		
– Audit services	<b>570</b>	550
– Non-audit services	<b>130</b>	290
Cost of inventories recognised as expenses	<b>20,273</b>	54,812
Depreciation of property, plant and equipment	<b>12,594</b>	12,399
Impairment loss on production sharing contract	<b>341,771</b>	419,819
Loss on property, plant and equipment written off	<b>12</b>	–
Operating lease charges in respect of land and buildings	<b>2,321</b>	2,468

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

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

2016

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

2015

	Fees <i>HK\$'000</i>	Salaries, allowances and benefits in kind <i>HK\$'000</i>	Discretionary bonuses <i>HK\$'000</i>	Retirement scheme contributions <i>HK\$'000</i>	Total <i>HK\$'000</i>
<b>Chief executive</b>					
Lyu Guoping	–	1,685	224	18	1,927
<b>Executive directors</b>					
Cheng Wai Keung	–	275	26	14	315
Tam Tak Wah	–	670	54	18	742
Tsang Ching Man	–	929	73	18	1,020
<b>Independent non-executive directors</b>					
Albert Saychuan Cheok ( <i>Chairman</i> )	480	–	–	–	480
Chan Tsz Kit	100	–	–	–	100
Chan Yim Por Bonnie	100	–	–	–	100
Wang Li	100	–	–	–	100
	<u>780</u>	<u>3,559</u>	<u>377</u>	<u>68</u>	<u>4,784</u>

*Notes:*

- (i) None of the directors or chief executive waived any emoluments during the years ended 31 December 2016 and 2015.
- (ii) The executive directors' emoluments shown above were mainly for their services in connection with the management of the affairs of the Company and the Group during the years ended 31 December 2016 and 2015.
- (iii) The independent non-executive directors' emoluments shown above were mainly for their services as directors of the Company during the years ended 31 December 2016 and 2015.
- (iv) The chief executive's emoluments shown above were mainly for his services in connection with the management of the affairs of the Company and the Group during the years ended 31 December 2016 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

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

**(b) Directors' retirement benefits**

None of the directors received or will receive any retirement benefits during the year (2015: Nil).

**(c) Directors' termination benefits**

None of the directors received or will receive any termination benefits during the year (2015: Nil).

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

During the year ended 31 December 2016, the Company did not pay consideration to any third parties for making available directors' services (2015: Nil).

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

During the year ended 31 December 2016, there is no loans, quasi-loans and other dealing arrangements in favour of the directors, or controlled body corporates and connected entities of such directors (2015: Nil).

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

No significant transaction, arrangement and contract in relation to the Company's business to which the Company was a party and in which a director of the Company had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year (2015: Nil).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**13. INDIVIDUALS WITH HIGHEST EMOLUMENTS**

The five highest paid employees of the Group during the year included one director and the chief executive (2015: one director and the chief executive), details of whose emoluments are set out in note 12 above. The emoluments of the remaining three (2015: three) individuals are as follows:

	<b>2016</b>	2015
	<i>HK\$'000</i>	<i>HK\$'000</i>
Salaries, allowances and other benefits in kind	<b>4,412</b>	4,447
Discretionary bonuses	<b>187</b>	186
Retirement scheme contributions	<b>54</b>	54
	<hr/> <b>4,653</b> <hr/>	<hr/> 4,687 <hr/>

	<b>Number of individuals</b>	
	<b>2016</b>	2015
<b>Emoluments bands</b>		
Nil to HK\$1,000,000	<b>1</b>	–
HK\$1,000,001 to HK\$1,500,000	<b>1</b>	2
HK\$1,500,001 to HK\$2,000,000	<b>–</b>	–
HK\$2,000,001 to HK\$2,500,000	<b>1</b>	1
	<hr/> <b>3</b> <hr/>	<hr/> 3 <hr/>

There was no arrangement under which any of these individuals waived or agreed to waive any remuneration during the years ended 31 December 2016 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 14. INCOME TAX

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current tax		
PRC Enterprise Income Tax	<b>68</b>	67
Hong Kong Profits Tax	–	398
	<b>68</b>	465
Overprovision in prior years		
Hong Kong Profits Tax	<b>(2)</b>	–
Deferred tax		
Current year ( <i>note 14(d)</i> )	<b>(113,856)</b>	(121,735)
Income tax credit	<b>(113,790)</b>	(121,270)

- (i) The provision for Hong Kong Profits Tax is calculated at 16.5% (2015: 16.5%) of the estimated assessable profits for the year.
- (ii) The Company's wholly-owned subsidiary, Can-Elite, incorporated under the laws of British Columbia, Canada, is subject to Income Tax Act (Canada) at a rate of 28% (2015: 28%).

Pursuant to the tax treaty agreement between the PRC government and the government of Canada for the avoidance of double taxation and the prevention of fiscal evasion with respect to taxes on income, tax payable in the PRC on profits, income or gains arising in the PRC shall be deducted from any Canadian tax payable in respect of such profits, income or gains. No provision for Canadian tax has been made as the Group has no assessable profits derived from Canada during the years ended 31 December 2016 and 2015.

- (iii) The subsidiaries in the PRC are subject to PRC Enterprise Income Tax rate of 25% (2015: 25%).
- (iv) Pursuant to the PRC tax law, a 10% withholding tax is levied on dividends declared to foreign investors from the PRC. A lower withholding tax rate may be applied if there is a tax treaty arrangement between the PRC and jurisdiction of the foreign investors. According to the tax treaty between Hong Kong Special Administrative Region and the PRC for avoidance of double taxation and prevention of fiscal evasion, dividends declared from the PRC subsidiaries to Hong Kong holding companies are subject to 5% withholding income tax.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**14. INCOME TAX (Continued)**

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Loss before tax	<b>(498,325)</b>	(545,727)
Notional tax on loss before tax, calculated at the rates applicable in the jurisdictions concerned	<b>(140,334)</b>	(162,580)
Tax effect of income not taxable for tax purpose	<b>(22,096)</b>	(7,264)
Tax effect of expenses not deductible for tax purpose	<b>44,858</b>	43,747
Tax effect of deductible temporary differences not recognised	<b>46</b>	49
Tax effect of tax losses not recognised	<b>3,738</b>	4,778
Overprovision in respect of prior years	<b>(2)</b>	–
Income tax credit	<b>(113,790)</b>	(121,270)

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
PRC Enterprise Income Tax	<b>2,639</b>	2,637
Hong Kong Profits Tax	<b>1,041</b>	1,042
	<b>3,680</b>	3,679

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 14. INCOME TAX (Continued)

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

	Fair value adjustments of financial assets at fair value through profit or loss <i>HK\$'000</i>	Fair value adjustments on PSC arising from the business combination <i>(note 17)</i> <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 1 January 2015	–	641,427	641,427
Charge (credit) to consolidated statement of profit or loss ( <i>note 14(a)</i> )	9,404	(131,139)	(121,735)
Exchange adjustment	–	(31,470)	(31,470)
At 31 December 2015 and 1 January 2016	9,404	478,818	488,222
Credit to consolidated statement of profit or loss ( <i>note 14(a)</i> )	(7,954)	(105,902)	(113,856)
Exchange adjustment	–	(29,709)	(29,709)
At 31 December 2016	<u>1,450</u>	<u>343,207</u>	<u>344,657</u>

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

Deferred tax assets of the Group amounting to HK\$13,536,000 (2015: HK\$18,471,000), arising from unused tax losses have not been recognised in the consolidated financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 15. LOSS PER SHARE

## (a) Basic loss per share

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

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<i>Loss for the purpose of basic loss per share</i>		
Loss for the year attributable to owners of the Company	<u>384,448</u>	<u>423,744</u>
	2016	2015 (Restated)#
<i>Weighted average number of ordinary shares for the purpose of basic loss per share</i>		
Issued ordinary shares at 1 January	5,700,358,074	4,069,417,989
Effect of exercise of warrants	173,488,235	98,196,142
Effect of new shares issued upon open offer	–	246,433,533
Effect of conversion of convertible notes	–	306,849,315
	<u>5,873,846,309</u>	<u>4,720,896,979</u>
Weighted average number of ordinary shares at 31 December		
Share consolidation ( <i>note 37</i> )	(2,936,923,155)	(2,360,448,490)
Effect of bonus element on shares issued under rights issue ( <i>note 37</i> )	<u>10,797,512</u>	<u>8,678,120</u>
Weighted average number of ordinary shares at 31 December after the effect of share consolidation and rights issue	<u>2,947,720,666</u>	<u>2,369,126,609</u>

# Comparative figures for the weighted average number of ordinary shares for the year ended 31 December 2015 have been adjusted retrospectively for the effect of the share consolidation and rights issue made after the reporting period but before the consolidated financial statements are authorised for issue.

## (b) Diluted loss per share

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 16. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Construction in progress	Plant and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
<b>Cost</b>							
At 1 January 2015	6,806	–	81,435	2,125	3,380	2,014	95,760
Exchange adjustment	(380)	(247)	(5,547)	(45)	(97)	–	(6,316)
Additions	–	40,300	–	63	–	–	40,363
Transfer	–	(32,802)	32,802	–	–	–	–
Written off	–	–	(768)	–	–	(1,186)	(1,954)
At 31 December 2015 and 1 January 2016	6,426	7,251	107,922	2,143	3,283	828	127,853
Exchange adjustment	(411)	(702)	(7,226)	(55)	(109)	–	(8,503)
Additions	–	13,482	205	209	828	–	14,724
Transfer	–	(8,070)	8,070	–	–	–	–
Written off	–	–	–	(84)	(32)	–	(116)
At 31 December 2016	6,015	11,961	108,971	2,213	3,970	828	133,958
<b>Accumulated depreciation</b>							
At 1 January 2015	1,418	–	19,674	1,980	1,271	1,423	25,766
Exchange adjustment	(90)	–	(1,432)	(4)	(26)	–	(1,552)
Charge for the year	332	–	11,144	70	476	377	12,399
Written off	–	–	(768)	–	–	(1,186)	(1,954)
At 31 December 2015 and 1 January 2016	1,660	–	28,618	2,046	1,721	614	34,659
Exchange adjustment	(120)	–	(2,304)	(42)	(40)	–	(2,506)
Charge for the year	315	–	11,344	114	620	201	12,594
Written off	–	–	–	(72)	(32)	–	(104)
At 31 December 2016	1,855	–	37,658	2,046	2,269	815	44,643
<b>Carrying amounts</b>							
At 31 December 2016	4,160	11,961	71,313	167	1,701	13	89,315
At 31 December 2015	4,766	7,251	79,304	97	1,562	214	93,194

The land and buildings are situated in the PRC under medium-term lease. None of property, plant and equipment was pledged as security for borrowings of the Group as at 31 December 2016 and 2015.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**17. INTANGIBLE ASSETS**

	<b>Production sharing contract ("PSC") HK\$'000</b>
<b>Cost</b>	
At 1 January 2015	4,170,616
Exchange adjustment	<u>(232,669)</u>
At 31 December 2015 and 1 January 2016	3,937,947
Exchange adjustment	<u>(251,743)</u>
At 31 December 2016	<u>3,686,204</u>
<b>Accumulated amortisation and impairment</b>	
At 1 January 2015	1,604,908
Charge for the year	104,738
Impairment loss	419,819
Exchange adjustment	<u>(106,792)</u>
At 31 December 2015 and 1 January 2016	2,022,673
Charge for the year	81,839
Impairment loss	341,771
Exchange adjustment	<u>(132,911)</u>
At 31 December 2016	<u>2,313,372</u>
<b>Carrying amount</b>	
At 31 December 2016	<u><u>1,372,832</u></u>
At 31 December 2015	<u><u>1,915,274</u></u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**17. INTANGIBLE ASSETS (Continued)***Notes:*

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

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

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

On 29 August 2013, a supplemental agreement was made between China United and Can-Elite pursuant to which, the exploration period for the contract area under the PSC has been extended for two more years to 31 March 2015 during which Can-Elite shall expend at least RMB15,000,000 per year for exploration.

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**17. INTANGIBLE ASSETS (Continued)***Notes: (Continued)*(a) *(Continued)*

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

The PSC is amortised on straight-line basis over the remaining contract terms of 22.9 years (2015: 23.9 years) of the PSC.

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

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>(i) Results for the year</b>		
Revenue	2,000	1,951
Administrative expenses	(24,791)	(22,995)
Finance costs	(43,817)	(57,529)
Amortisation of PSC	(81,839)	(104,738)
Impairment loss on PSC	(341,771)	(419,819)
PRC Enterprise Income Tax	(68)	(67)
Reversal of deferred tax liabilities	105,902	131,139
	<u><u>105,902</u></u>	<u><u>131,139</u></u>
<b>(ii) Other comprehensive expense</b>		
Exchange difference on translation of foreign operations	(82,856)	(89,969)
	<u><u>(82,856)</u></u>	<u><u>(89,969)</u></u>
<b>(iii) Assets and liabilities</b>		
Intangible assets – PSC	1,372,832	1,915,274
Property, plant and equipment*	84,265	87,596
Other payables	(16,818)	(16,348)
Other borrowing	(11,265)	(12,908)
Tax liabilities	(18)	(16)
Deferred tax liabilities ( <i>note 14(d)</i> )	(343,207)	(478,818)
	<u><u>(343,207)</u></u>	<u><u>(478,818)</u></u>

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 17. INTANGIBLE ASSETS (Continued)

Notes: (Continued)

(a) (Continued)

	2016 HK\$'000	2015 HK\$'000
(iv) <b>Capital commitments (note 32(a))</b>		
Contracted but not provided for	4,385	27,549

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

(b) Impairment test on PSC

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

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

Period of cash flow projections	21 years
Discount rate (pre-tax)	20.97%

The calculation is based on the pre-tax cash flow projections of the financial budgets approved by the management covering the 21-year period and a pre-tax discount rate of 20.97% (2015: 19.15%) which have duly reflected risks specific to the PSC, assuming that all key information provided by the management which included reserve quantity, feasibility of business plan, and exploitation method are appropriate and feasible. The cash flow projections are based on the budget sales and expected gross margins determined based on management's experience and expectation for the market development in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2016 is based on the reports including the technical reports issued by Netherland, Sewell & Associates, Inc. on 2 March 2011 and 31 October 2008, the technical reports prepared by an integrated geoscience and engineering consulting company on 23 March 2015 and the reserve evaluation report prepared in respect of the reserves located in Luling Block, being part of the contract area, which had been approved by the Office for Oil and Gas Profession of the Mineral Resources and Reserves Assessment Centre of the Ministry of Land and Resources of the PRC and was duly filed with the Ministry of Land and Resources of the PRC on 4 June 2014 after the compliance review. The completion of the approval and filing procedure signified that the risk assessment stage of Luling Block in the contract area has come to an end, and the PSC work will proceed to the design and development stage. Due to the delay on the implementation of the business plan for the exploration and exploitation of the CBM and the continuous low level of domestic natural gas price in the PRC, the carrying amount of the PSC exceeds its estimated recoverable amount and an impairment loss of HK\$341,771,000 (2015: HK\$419,819,000) has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2016.



## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**18. INVESTMENTS IN SUBSIDIARIES (Continued)**

Name of the Company	Place of incorporation/ operation	Proportion of ownership interest			Issued and paid up capital	Principal activities
		Group's effective interest	Held by the Company	Held by a subsidiary		
Magic Chance Investments Limited	BVI	100%	100%	–	US\$1	Securities trading
Merit First Investments Limited	BVI	100%	–	100%	US\$1	Investment holding
Nation Rich Investments Limited	BVI	100%	100%	–	US\$1	Investment holding
New Smart Credit Service Limited	Hong Kong	100%	100%	–	HK\$1	Provision of financing services
New Smart Energy Group Limited	Hong Kong	100%	100%	–	HK\$1	Inactive
New Smart Holdings Limited	Hong Kong	100%	100%	–	HK\$2	Provision of corporate services
Powerful Sky Investments Limited	BVI	100%	–	100%	US\$1	Investment holding
Profit Giant Investments Limited	BVI	100%	100%	–	US\$1	Investment holding
Smart Class Investments Limited	Hong Kong	100%	–	100%	HK\$1	Investment holding
Strong Way International Limited	Hong Kong	60%	–	60%	HK\$5,200,000	Electronic components trading
U-Cyber (Nominees) Limited	Hong Kong	100%	100%	–	HK\$2	Inactive
U-Cyber Investment (Nominees) Limited	Hong Kong	100%	100%	–	HK\$2	Inactive
Wisedeal Investments Limited	BVI	100%	100%	–	US\$1	Investment holding
駿達朝陽(北京)投資管理諮詢有限公司 (note)	PRC	100%	–	100%	HK\$4,500,000	Property investment

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

## 18. INVESTMENTS IN SUBSIDIARIES (Continued)

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

Note:

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

The Group had no subsidiaries which have material non-controlling interests for the year ended 31 December 2016 and 2015.

## 19. AVAILABLE-FOR-SALE FINANCIAL ASSETS

	2016 HK\$'000	2015 HK\$'000
Club debentures at fair value	<b>1,000</b>	1,000

Note:

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**20. LOAN RECEIVABLES**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Treasury business:		
– Secured short-term loans	<b>4,129</b>	11,570

As at 31 December 2016, secured short-term loans represented short-term loans advanced to independent third party borrowers with collateral over their properties or vehicles, bore interest ranging from 1.00% to 2.55% per month and are subject to demand repayment clause.

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Held for trading investments:		
– Listed investment in Hong Kong at fair value ( <i>note</i> )	<b>70,085</b>	85,373

*Note:*

The fair values of the listed securities are determined by reference to their respective quoted market prices available on the relevant exchange at the end of the reporting period.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**22. TRADE AND OTHER RECEIVABLES**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade receivables ( <i>note (a)</i> )	<b>17,360</b>	14,403
Less: Allowance for doubtful debts ( <i>note (b)</i> )	<b>(13,516)</b>	(11,094)
	<b>3,844</b>	3,309
Other receivables ( <i>note (c)</i> )	<b>85,462</b>	95,206
Deposits and prepayments	<b>3,406</b>	1,809
	<b>88,868</b>	97,015
	<b>92,712</b>	100,324

*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:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
0 – 30 days	<b>1,933</b>	2,241
31 – 90 days	<b>1,986</b>	2,373
91 – 365 days	<b>4,121</b>	9,460
Over 365 days	<b>9,320</b>	329
	<b>17,360</b>	14,403
Less: Allowance for doubtful debts	<b>(13,516)</b>	(11,094)
	<b>3,844</b>	3,309

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**22. TRADE AND OTHER RECEIVABLES (Continued)***Notes: (Continued)*

## (b) Allowance for doubtful debts

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

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
At 1 January	<b>11,094</b>	329
Allowance recognised on trade receivables	<b>2,422</b>	10,765
At 31 December	<b>13,516</b>	11,094

At 31 December 2016, the Group's trade receivables of HK\$13,516,000 (2015: HK\$11,094,000) 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 (2015: HK\$85,000,000) which were escrow monies placed at the escrow accounts of a firm of solicitors which acted as an escrow agent for the Group. The Group has instituted legal proceedings against the escrow agent for the return of these escrow sums as referred to in note 33(a) to the consolidated financial statements. The directors of the Company are of the opinion, based on the legal advice sought, that the escrow monies can be recovered in full and therefore no impairment loss is required as at 31 December 2016.

**23. CASH AND BANK BALANCES**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Cash at banks and on hand	<b>142,515</b>	124,920
Less: Pledged bank deposits	<b>(180)</b>	(180)
Cash and cash equivalents in the consolidated statement of cash flows	<b>142,335</b>	124,740

Bank balances carry interest ranging from 0.01% to 3.30% (2015: from 0.01% to 2.86%) per annum. Short-term bank deposits amounting to HK\$180,000 (2015: HK\$180,000) carry fixed interest rate of 0.1625% (2015: 0.1125%) per annum and are pledged to a bank to secure banking facilities granted to the Group.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**24. OTHER BORROWING, UNSECURED**

Other borrowing, relating to the CBM business under the PSC (note 17) and payable to an independent third party, is unsecured, interest free and with no fixed repayment terms.

**25. TRADE AND OTHER PAYABLES**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Trade payables ( <i>note</i> )	1,732	1,995
Other payables	24,265	25,234
Amounts due to non-controlling interests of a subsidiary ( <i>note 34</i> )	15,637	14,154
Accrued expenses	9,780	4,980
	<hr/> <b>51,414</b> <hr/> <hr/>	<hr/> 46,363 <hr/> <hr/>

*Note:*

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Current – within 1 month	720	981
More than 1 month but within 3 months	938	856
More than 3 months but within 6 months	23	–
More than 6 months	51	158
	<hr/> <b>1,732</b> <hr/> <hr/>	<hr/> 1,995 <hr/> <hr/>

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 26. BONDS

	Unlisted bond ("Bond I") <i>HK\$'000</i> <i>(note (a))</i>	Unlisted bond ("Bond II") <i>HK\$'000</i> <i>(note (b))</i>	Unlisted bond ("Bond III") <i>HK\$'000</i> <i>(note (c))</i>	Unlisted bond ("Bond IV") <i>HK\$'000</i> <i>(note (d))</i>	Total <i>HK\$'000</i>
At 1 January 2015	78,385	904	–	–	79,289
Issue of bonds, net of transaction cost	21,600	–	–	–	21,600
Interest charge	9,839	86	–	–	9,925
Less: Interest paid	<u>(6,547)</u>	<u>(70)</u>	<u>–</u>	<u>–</u>	<u>(6,617)</u>
At 31 December 2015 and 1 January 2016	103,277	920	–	–	104,197
Issue of bonds, net of transaction cost	–	–	10,890	32,040	42,930
Interest charge	10,350	88	285	420	11,143
Less: Interest paid	<u>(6,678)</u>	<u>(70)</u>	<u>(274)</u>	<u>(272)</u>	<u>(7,294)</u>
At 31 December 2016	<u><u>106,949</u></u>	<u><u>938</u></u>	<u><u>10,901</u></u>	<u><u>32,188</u></u>	<u><u>150,976</u></u>
Analysed for reporting purpose as:					
At 31 December 2016					
Non-current liabilities	23,052	938	10,901	32,188	67,079
Current liabilities	<u>83,897</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>83,897</u>
Total	<u><u>106,949</u></u>	<u><u>938</u></u>	<u><u>10,901</u></u>	<u><u>32,188</u></u>	<u><u>150,976</u></u>
At 31 December 2015					
Non-current liabilities	103,277	920	–	–	104,197
Current liabilities	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>	<u>–</u>
Total	<u><u>103,277</u></u>	<u><u>920</u></u>	<u><u>–</u></u>	<u><u>–</u></u>	<u><u>104,197</u></u>



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**26. BONDS (Continued)***Notes:*

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

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

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

The imputed interest expenses on Bond I were calculated using effective interest method with average effective interest rate of 10.02% (2015: 10.01%) per annum.

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

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

The imputed interest expenses on Bond II were calculated using effective interest method with effective interest rate of 9.59% (2015: 9.58%) per annum.

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**27. CONVERTIBLE NOTES, UNSECURED**

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

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

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

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

During the year ended 31 December 2013, Old Convertible Notes with principal amount of HK\$18,000,000 were redeemed.

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

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

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

The conversion price of the New Convertible Notes was adjusted to HK\$0.11 on 17 September 2015 and to HK\$0.10 on 19 November 2015 upon completion of the share issued under open offer and bonus issue of warrants. Subsequently, the conversion price of the New 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 rights issue as detailed in note 37 to the consolidated financial statements.

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

The following key inputs and data were applied to the binomial lattice model for the derivatives embedded in the convertible notes at 31 December 2016 and 2015.

	<b>At 31/12/2016</b>	At 31/12/2015
Share price	<b>HK\$0.100</b>	HK\$0.136
Conversion price	<b>HK\$0.10</b>	HK\$0.10
Risk free rate	<b>1.08%</b>	0.75%
Expected dividend yield	<b>Nil</b>	Nil
Annualised volatility	<b>74.59%</b>	71.74%

During the year ended 31 December 2016, New Convertible Notes with principal amount of HK\$15,000,000 (2015: HK\$135,000,000) were redeemed, together with a discount of HK\$300,000 (2015: HK\$2,000,000) provided by convertible notes holder, resulting in a gain of HK\$1,640,000 (2015: HK\$18,205,000) which was recognised in the consolidated statement of profit or loss.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 27. CONVERTIBLE NOTES, UNSECURED (Continued)

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

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

	<b>Embedded derivatives portion HK\$'000</b>	<b>Liability portion HK\$'000</b>	<b>Total HK\$'000</b>
Carrying amount of convertible notes (with principal amount of HK\$677,000,000) as at 1 January 2015	165,285	593,767	759,052
Conversion of convertible notes (with principal amount of HK\$40,000,000)	(8,523)	(35,524)	(44,047)
Imputed interest charged to consolidated statement of profit or loss	–	19,118	19,118
Decrease in fair value credited to consolidated statement of profit or loss	(74,630)	–	(74,630)
Interest paid	–	(2,788)	(2,788)
	<hr/>	<hr/>	<hr/>
Carrying amount immediately before restructuring	82,132	574,573	656,705
Fair value at the date of restructuring	(189,218)	(447,782)	(637,000)
Gain on restructuring	107,086	(126,791)	(19,705)
	<hr/>	<hr/>	<hr/>
Carrying amount of convertible notes	<u>–</u>	<u>–</u>	<u>–</u>

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**27. CONVERTIBLE NOTES, UNSECURED (Continued)****New Convertible Notes due on 31 December 2018**

	<b>Embedded derivatives portion HK\$'000</b>	<b>Liability portion HK\$'000</b>	<b>Total HK\$'000</b>
Issue of convertible notes (with principal amount of HK\$637,000,000) on 20 March 2015	189,218	447,782	637,000
Imputed interest charged to consolidated statement of profit or loss	–	38,411	38,411
Increase in fair value charged to consolidated statement of profit or loss	55,158	–	55,158
Redemption (with principal amount of HK\$135,000,000)	(50,883)	(100,322)	(151,205)
Interest paid	–	(9,469)	(9,469)
	<hr/>	<hr/>	<hr/>
Carrying amount of convertible notes (with principal amount of HK\$502,000,000) as at 31 December 2015 and 1 January 2016	193,493	376,402	569,895
Imputed interest charged to consolidated statement of profit or loss	–	43,817	43,817
Decrease in fair value credited to consolidated statement of profit or loss	(83,295)	–	(83,295)
Redemption (with principal amount of HK\$15,000,000)	(4,357)	(11,983)	(16,340)
Interest paid	–	(5,046)	(5,046)
	<hr/>	<hr/>	<hr/>
Carrying amount of convertible notes (with principal amount of HK\$487,000,000) as at 31 December 2016	<u>105,841</u>	<u>403,190</u>	<u>509,031</u>

At 31 December 2016, New Convertible Notes with principal amount of HK\$487,000,000 remained outstanding.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**28. SHARE CAPITAL**

	Number of ordinary shares	Share capital <i>HK\$'000</i>
<b>Issued and fully paid:</b>		
At 1 January 2015	4,069,417,989	1,552,433
Issue of shares upon conversion of convertible notes	333,333,333	44,047
Issue of new shares upon open offer ( <i>note (a)</i> )	1,138,585,309	181,412
Issue of shares upon exercise of warrants	159,021,443	53,810
	<hr/>	<hr/>
At 31 December 2015 and 1 January 2016	5,700,358,074	1,831,702
Issue of shares upon exercise of warrants	687,366,487	62,550
	<hr/>	<hr/>
At 31 December 2016	<u>6,387,724,561</u>	<u>1,894,252</u>

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

*Notes:*

## (a) Issue of new shares upon open offer

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

## (b) Share consolidation and rights issue

As disclosed in note 37 to the consolidated financial statements, the Company implemented the share consolidation and rights issue after the reporting period but before the consolidated financial statements are authorised for issue.

All the new shares issued during the year ended 31 December 2016 and 2015 ranked pari passu with the then existing shares in all respects.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**29. WARRANTS**

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

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

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

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

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

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

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**30. SHARE OPTION SCHEME**

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

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

At the annual general meeting of the Company held on 2 June 2016, an ordinary resolution was passed refreshing the scheme mandate limit. The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at 2 June 2016. This limit can further be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Listing Rules. The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any twelve-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders’ approval in a general meeting.

There were no share options granted and exercised during the two years ended 31 December 2016 and 2015. There were no share options outstanding as at 31 December 2016 and 2015.

**31. EMPLOYEE RETIREMENT BENEFITS**

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

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

The Group’s contributions to employee retirement benefits for the year ended 31 December 2016 were HK\$1,861,000 (2015: HK\$1,590,000). As at 31 December 2016, there was no material outstanding contribution to employee retirement benefits.



**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**32. COMMITMENTS**

- (a) Capital commitments outstanding as at 31 December 2016 not provided for in the consolidated financial statements were as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Production sharing contract:		
– Contracted but not provided for	<b>4,385</b>	27,549

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

- (b) At 31 December 2016, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Within 1 year	<b>1,981</b>	1,379
After 1 year but within 5 years	<b>1,013</b>	281
	<b>2,994</b>	1,660

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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**33. CONTINGENCIES****(a) Legal proceedings**

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

**(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.

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**34. RELATED PARTY TRANSACTIONS**

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

**Key management personnel compensation**

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Salaries, allowances and other benefits in kind	<b>6,509</b>	7,799
Discretionary bonuses	<b>282</b>	377
Retirement scheme contributions	<b>86</b>	122
	<b>6,877</b>	8,298

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

	<b>2016</b> <i>HK\$'000</i>	2015 <i>HK\$'000</i>
Amount due to non-controlling interests of a subsidiary ( <i>note 25</i> )	<b>15,637</b>	14,154

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

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 35. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2016 <i>HK\$'000</i>	2015 <i>HK\$'000</i>
<b>Non-current assets</b>		
Property, plant and equipment	85	301
Interest in subsidiaries, net	1,008,794	1,434,125
Available-for-sale financial assets	1,000	1,000
	<u>1,009,879</u>	<u>1,435,426</u>
<b>Current assets</b>		
Amounts due from subsidiaries, net	178,541	213,944
Other receivables	35,876	35,924
Cash and bank balances	100,685	49,490
	<u>315,102</u>	<u>299,358</u>
<b>Current liabilities</b>		
Bonds	83,897	–
Other payables	5,069	1,214
	<u>88,966</u>	<u>1,214</u>
<b>Net current assets</b>	<u>226,136</u>	<u>298,144</u>
<b>Total assets less current liabilities</b>	<u>1,236,015</u>	<u>1,733,570</u>
<b>Non-current liabilities</b>		
Bonds	67,079	104,197
Convertible notes–liability portion, unsecured	403,190	376,402
Convertible notes–embedded derivatives, unsecured	105,841	193,493
	<u>576,110</u>	<u>674,092</u>
<b>Net assets</b>	<u>659,905</u>	<u>1,059,478</u>
<b>Capital and reserves</b>		
Share capital	1,894,252	1,831,702
Reserves ( <i>note</i> )	(1,234,347)	(772,224)
<b>Total equity</b>	<u>659,905</u>	<u>1,059,478</u>

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 March 2017 and are signed on its behalf by:

Ms. Tsang Ching Man, *DIRECTOR*

Mr. Tam Tak Wah, *DIRECTOR*

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**35. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION (Continued)***Note:**Details of the changes in the Company's individual components of reserves between the beginning and the end of the year are set out below:*

	<b>Special capital reserve</b> <i>HK\$'000</i> <i>(note 36(a))</i>	<b>Accumulated losses</b> <i>HK\$'000</i>	<b>Total</b> <i>HK\$'000</i>
At 1 January 2015	579,799	(804,957)	(225,158)
Loss and total comprehensive expenses for the year	<u>–</u>	<u>(547,066)</u>	<u>(547,066)</u>
At 31 December 2015 and 1 January 2016	579,799	(1,352,023)	(772,224)
Loss and total comprehensive expenses for the year	<u>–</u>	<u>(462,123)</u>	<u>(462,123)</u>
At 31 December 2016	<u><u>579,799</u></u>	<u><u>(1,814,146)</u></u>	<u><u>(1,234,347)</u></u>

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

No credit transfer to this special capital reserve was made by the Company in 2016 and 2015.

## NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEAR ENDED 31 DECEMBER 2016

### 36. RESERVES

#### (a) Special capital reserve

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

#### (b) Exchange reserve

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

#### (c) Distributable reserves

As at 31 December 2016, the aggregate amount of reserves available for distribution to owners of the Company, as calculated under the provisions of Part 6 of the new Hong Kong Companies Ordinance (Cap.622), with reference to section 79B of the predecessor Hong Kong Companies Ordinance (Cap. 32) was Nil (2015: Nil).

**NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS**

FOR THE YEAR ENDED 31 DECEMBER 2016

**37. EVENTS AFTER THE REPORTING PERIOD**

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

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\$137,694,000 will be used for the repayment of unlisted corporate bonds issued by the Company and as the general working capital of the Group.

On 7 March 2017, the Company proposed to issue bonus warrants on the basis of one warrant for every five shares of the Company held by the shareholders on the record date. Holders of these bonus warrants will be entitled to subscribe in cash at any time during the period commencing from the date of the issue of the warrants to the date falling 12 months from the date of the issue of the warrants, which is expected to be from 11 May 2017 to 10 May 2018 (both dates inclusive) for new shares at an initial subscription price of HK\$0.093 per share (subject to adjustment). The bonus warrant issue is subject to the shareholders’ approval at the extraordinary general meeting to be held on 12 April 2017.

**38. COMPARATIVE FIGURES**

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

## FINANCIAL SUMMARY

	Year ended 31 December				
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Results</b>					
Revenue	<u>23,518</u>	<u>58,229</u>	<u>130,628</u>	<u>97,857</u>	<u>37,694</u>
Loss before tax	<u>(498,325)</u>	<u>(545,727)</u>	<u>(223,185)</u>	<u>(453,906)</u>	<u>(257,302)</u>
Income tax	<u>113,790</u>	<u>121,270</u>	<u>26,085</u>	<u>100,120</u>	<u>54,345</u>
Loss for the year	<u>(384,535)</u>	<u>(424,457)</u>	<u>(197,100)</u>	<u>(353,786)</u>	<u>(202,957)</u>
Other comprehensive (expenses) income for the year	<u>(82,841)</u>	<u>(89,845)</u>	<u>(10,083)</u>	<u>65,938</u>	<u>14,163</u>
Total comprehensive expenses for the year	<u>(467,376)</u>	<u>(514,302)</u>	<u>(207,183)</u>	<u>(287,848)</u>	<u>(188,794)</u>
Loss for the year attributed to:					
Owners of the Company	<u>(384,448)</u>	<u>(423,744)</u>	<u>(196,428)</u>	<u>(353,176)</u>	<u>(202,223)</u>
Non-controlling interests	<u>(87)</u>	<u>(713)</u>	<u>(672)</u>	<u>(610)</u>	<u>(734)</u>
	<u>(384,535)</u>	<u>(424,457)</u>	<u>(197,100)</u>	<u>(353,786)</u>	<u>(202,957)</u>
<b>At 31 December</b>					
	2016 HK\$'000	2015 HK\$'000	2014 HK\$'000	2013 HK\$'000	2012 HK\$'000
<b>Assets and liabilities</b>					
Total assets	<u>1,772,588</u>	<u>2,331,655</u>	<u>2,885,729</u>	<u>2,922,046</u>	<u>3,255,368</u>
Total liabilities	<u>(1,071,023)</u>	<u>(1,225,264)</u>	<u>(1,544,305)</u>	<u>(1,412,503)</u>	<u>(1,501,787)</u>
Total equity	<u>701,565</u>	<u>1,106,391</u>	<u>1,341,424</u>	<u>1,509,543</u>	<u>1,753,581</u>
Non-controlling interests	<u>3,961</u>	<u>3,874</u>	<u>3,161</u>	<u>2,489</u>	<u>1,879</u>
Equity attributable to owners of the Company	<u>705,526</u>	<u>1,110,265</u>	<u>1,344,585</u>	<u>1,512,032</u>	<u>1,755,460</u>