INTERNATIONAL STANDARD RESOURCES
標準資源

INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

ANNUAL REPORT 2018

CORPORATE INFORMATION

DIRECTORS

Executive Directors

Cheng Wai Keung
Tam Tak Wah
Tsang Ching Man

Independent Non-Executive Directors

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

CHIEF EXECUTIVE OFFICER

Lyu Guoping

AUTHORISED REPRESENTATIVES

Tam Tak Wah
Tsang Ching Man

COMPANY SECRETARY

Tsang Ching Man

AUDIT COMMITTEE

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

NOMINATION COMMITTEE

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

REMUNERATION COMMITTEE

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

PRINCIPAL BANKERS

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

LEGAL ADVISERS

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

AUDITOR

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

REGISTERED OFFICE

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

SHARE REGISTRAR

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

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91

COMPANY WEBSITE

www.intl-standardresources.com

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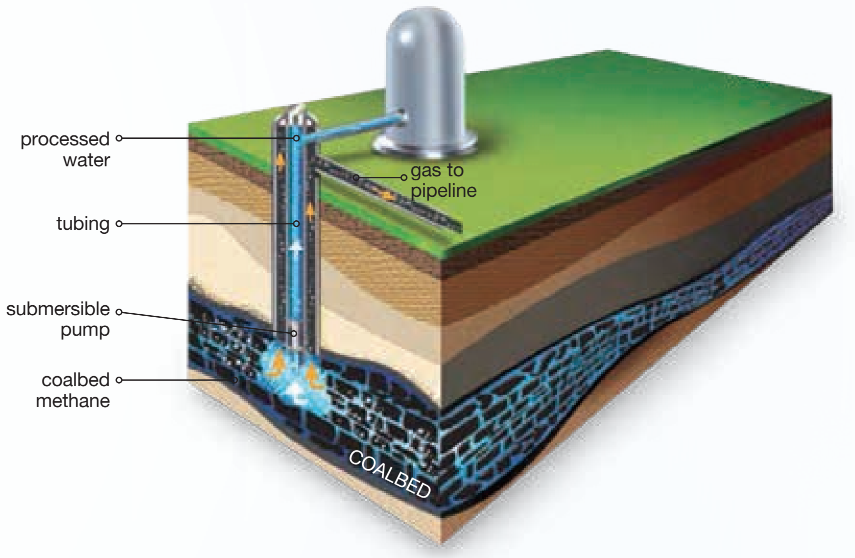
CHAIRMAN'S STATEMENT

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 2018.



BUSINESS REVIEW

During the year ended 31 December 2018, 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.

Coalbed Methane Business

The Group explores, develops and produces CBM in Anhui Province with a total exploration area of 567.843 square kilometres (the "**Contract Area**"). As at the end of the year of 2018, the CBM operation was still in exploration stage, a total of 42 exploration wells were drilled and 7 of them were production wells. However, the pumps of these wells were stuck by coal fine and were broken down due to the long term of dewatering and only 4 of the production wells were under actual production during the year and eventually ceased to produce since July 2018. Thus, there were only marginal contributions from the CBM business for the year.

Total revenue generated from the CBM business was HK$513,000 (2017: HK$1,418,000), a loss of HK$574,086,000 (2017: HK$351,802,000) was recorded mainly due to the amortisation of production sharing contract (the "**PSC**") of HK$51,228,000 (2017: HK$64,663,000), the imputed interest on convertible notes of HK$38,336,000 (2017: HK$37,875,000), and the impairment loss on PSC of HK$454,192,000 (2017: HK$323,032,000) which was resulted from the further delay on the implementation of the business plan for exploration and exploitation of the CBM and the continuous low level of domestic natural gas price in the PRC.

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

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). Area A can start production with effect from the day the overall development proposal ("**ODP**") approved by relevant government authorities of the PRC. Pursuant to the fourth modification agreement entered into between Can-Elite and China United in August 2017, the exploration period of Area B has been extended to 31 March 2020.

Area A

Following the completion of exploration work which led to the gathering of 3.158 billion cubic metres of underground proven reserves, Area A has proceeded into trial development phase, trial preparation works have simultaneously commenced for both underground and surface. However, the testing of two high capacity horizontal CBM wells was put on hold after suffering from construction issues such as the collapse of wellbore. Based on the current information obtained, it is better to adopt vertical well fracturing completion as the main well type to be used in the district. Can-Elite continued to prepare all necessary work in order to submit the ODP to the relevant government authorities of the PRC for review and approval, commence construction of surface gas gathering facilities and take out all necessary testing on high production wells so as to commence actual production as soon as possible.

Area B

A 2D seismic survey was undertaken which covered a total of 81 kilometres and 21 drilled wells. Can-Elite continued to perform extraction testing, secondary fracturing transformation, drainage and extraction observation and evaluation analysis in order to obtain necessary data to prepare the reserves report.

Treasury Business

The treasury business includes securities trading and money lending business.

The Group adopts a prudent approach for all its investments with the view for short to medium term profit. At 31 December 2018, the Group held an investment portfolio of listed securities in Hong Kong with an aggregate amount of approximately HK$10,010,000. During the year, the Group recorded a net unrealised loss of approximately HK$15,625,000 (i.e. unrealised gains of approximately HK$1,261,000 and unrealised losses of approximately HK$16,886,000). The unrealised loss was attributable to the Group's investments in Styland Holdings Limited ("**STYLAND**"). Details of the investments in STYLAND are as follows:

	For the year ended 31 December 2018			At 31 December 2018			At 31 December 2017
	Fair value (loss) gain	**Approximate percentage of fair value loss on held-for-trading investments**	**Approximate percentage of fair value gain on held-for-trading investments**	**Market value**	**Approximate percentage of held-for-trading investments**	**Approximate percentage to the net assets**	**Market value**
	HK$'000			*HK$'000*			*HK$000*
STYLAND							
– shares	(16,886)	100%	–	8,749	87.40%	22.75%	27,399
– warrants	1,261	–	100%	1,261	12.60%	3.28%	482
Total	(15,625)	100%	100%	10,010	100.00%	26.03%	27,881

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

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

Except the investment in STYLAND, at 31 December 2018, there was no other 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, due to the reallocation of funds of the Group, the amount of fund distributed to the money lending business further decreased. As a result, revenue generated from this segment (i.e. interest income) decreased to approximately HK$46,000 from HK$670,000 in 2017.

Electronic Components Business

The Group continued to be affected by the weak global demand dragged on the consumables market, as a result, revenue generated from the electronic components segment dropped substantially to HK$8,550,000, which represent a 41.36% decrease as compared to year 2017. The Group will regularly review the range of products distributed to confront with the increasingly difficult business environment so as to generate stable revenue and return. However, it shall be expected that the situation will not be improved in the short run.

PROSPECTS

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

The Group is a clean energy enterprise engaging in the exploration and development of CBM (unconventional gas) in Anhui Province. The collaborative blocks are located in the CBM contract area in Anhui Province, which is situated among the eastern and coastal developed regions of the PRC, representing a prominent market advantage. After almost 10 years of exploration, the Group is still working hard to overcome challenges arose during financing and technical breakthrough, and has begun to make re-adjustments in its project operation approach, first of which is the establishment of a new concept of "integrating exploration and exploitation" for the exploration and development of unconventional gas, with an increased focus on the collection, handling and utilisation of produced trial gas while committing to complete exploration goals and objectives, and make full use of the policy which has allowed for trial sales on explored and produced gas; the second approach is to actively seek cooperation with both domestic and overseas professional companies which possess technical and financial capabilities, in order to effectively resolve the fund requirement and difficulties in improving production capacity; and the third approach is to accelerate planning process, make progress in the development and production in Luling Gas Field (Area A), complete supplementary follow-up works on exploration in Su'nan Block (Area B) as soon as possible, prepare reserves report and push for approval on the additional proven reserves as soon as possible.

In 2019, the Group will follow closely the changes in energy and economic condition in the PRC and overseas, take the initiative to adjust and review existing businesses and operations, actively introduce strategic partners, redress the past situation of one-way investment without any return, and strive for another breakthrough year for the development of the Group's CBM business, to bring light for a foreseeable revenue to the Group and the shareholders.

In late 2018, the Group through a wholly-owned subsidiary, International Standard Resources Securities Limited, held two licenses granted by the Securities and Futures Commission, namely Type 1 (Dealing in Securities) and Type 4 (Advising on Securities). It is expected that this new segment will generate income from brokerage services and margin financing in late 2019.

At the same time, 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 2019

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the year was HK$9,109,000 (2017: HK$16,669,000), representing a decrease of 45.35%. Such decrease of revenue was mainly due to the continuous decrease of contribution from the electronic components business which resulted from the slowdown of retail market as a whole. The revenue generated by the sale of electronic components decreased by 41.36% from HK$14,581,000 in 2017 to HK$8,550,000 in 2018, representing 93.86% of the Group's revenue. The CBM exploration and exploitation operating subsidiary and the treasury segment contributed HK$513,000 (2017: HK$1,418,000) and HK$46,000 (2017: HK$670,000) to the Group in 2018, representing 5.63% and 0.51% of the Group's revenue respectively. The Group recorded a gross profit of HK$928,000 in 2018, a decrease from HK$2,058,000 in 2017, which resulted from the decreased contribution from the treasury segment, i.e. the money lending business, with a comparatively higher profit margin.

The Group's loss for the year was HK$530,791,000 (2017: HK$304,147,000). 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$454,192,000 (2017: HK$323,032,000), loss on restructuring of convertible notes amounted to HK$6,117,000 (2017: Nil), fair value loss on convertible notes' embedded derivatives amounted to HK$6,546,000 (2017: gain of HK$92,938,000), imputed interest on convertible notes amounted to HK$38,336,000 (2017: HK$37,875,000), imputed interest on bonds amounted to HK$5,056,000 (2017: HK$15,131,000), amortisation of the PSC amounted to HK$51,228,000 (2017: HK$64,663,000), net loss on revaluation of financial assets at fair value through profit or loss amounted to HK$15,625,000 (2017: HK$14,907,000), net foreign exchange loss of HK$11,082,000 (2017: gain of HK$14,040,000), depreciation on property, plant and equipment amounted to HK$10,428,000 (2017: HK$12,174,000) and the deferred tax credit amounted to HK$128,889,000 (2017: HK$99,645,000). The aggregate net result of the abovementioned accounting loss for 2018 is HK$469,721,000 (2017: HK$267,660,000). 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 2018 and 2017, if excluding those accounting profit and loss, was HK$61,070,000 and HK$36,487,000 respectively.

The Group recorded a loss attributable to owners of the Group of approximately HK$530,452,000 (2017: HK$303,913,000), and basic and diluted loss per share was approximately HK$1.11 (2017: HK$0.69(restated)). The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018.

LIQUIDITY AND FINANCIAL RESOURCES

As at 31 December 2018, the Group had current assets of HK$69,424,000 (2017: HK$77,802,000) and current liabilities of HK$124,338,000 (2017: HK$426,591,000) and cash and bank balances of HK$6,374,000 (2017: HK$34,967,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 55.83% (2017: 18.24%). The restructuring of the convertible notes falling due on 31 December 2018 proposed and completed in 2018 improved current ratio as at 31 December 2018.

The Group's gearing ratio, being a ratio of net debt to total capital, was approximately 92.13% (2017: 38.77%). Net debt is calculated as total borrowings, as shown in the consolidated statement of financial position less cash and bank balances. Total capital is calculated as equity, as shown in the consolidated statement of financial position, plus net debt.

In February, June and December 2018, promissory notes with aggregate principal amount of HK$18,500,000 were issued to an independent third party with an interest rate of 8% per annum.

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

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

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 34 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 36 to the consolidated financial statements, the Group had no other contingencies as at 31 December 2018.

LITIGATION

Save as disclosed in note 35 to the consolidated financial statements, so far as known to the Directors, there was no other litigation, arbitration or claim of material importance in which the Company is engaged or pending or which was threatened against the Company.

CHARGE ON ASSETS

The short-term bank deposits, amounted to approximately HK$180,000, have been pledged as securities for banking facilities granted to the Group as at 31 December 2018. Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of approximately HK$8,237,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 31 December 2018.

BONUS WARRANTS

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

SHARE CONSOLIDATION

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

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

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

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

On 24 August 2018, the Company entered into another convertible notes restructuring agreement with the Noteholder, pursuant to which the Noteholder agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due 31 December 2018 (the "**Convertible Notes Restructuring Agreement**"). Pursuant to an ordinary resolution passed at the extraordinary general meeting of the Company held on 30 October 2018, the special mandate for the issue of the new convertible notes with principal amount of HK$365,000,000 and bearing interest at 2% per annum due 31 December 2021 upon completion of the Convertible Note Restructuring Agreement and issue and allot of the conversion shares was approved. All the conditions precedent under the Convertible Notes Restructuring Agreement were fulfilled and the completion took place on 6 November 2018.

EVENTS AFTER THE REPORTING PERIOD

The Group had no material event after the reporting period.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2018, the Group had 40 employees, of which 18 were in Hong Kong and 22 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 2018.

DETAILS OF AUDIT QUALIFICATION AND RESPONSE FROM THE COMPANY

Details of the Audit Qualification

For the year ended 31 December 2018, the Group incurred a net loss of attributable to owners of the Company approximately HK$530,452,000 and a net cash outflow from operating activities of approximately HK$32,313,000. As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK$54,914,000 and its total borrowings amounted to approximately HK$456,378,000 while its cash and cash equivalents amounted to approximately HK$6,161,000, net of restricted bank balance and pledged bank deposits of approximately HK$213,000. As at 31 December 2018, the Group recorded outstanding bonds of approximately HK$46,665,000 and promissory notes of approximately HK$14,228,000 which are due for repayment within the next twelve months. In addition, as at the same date, the Group recorded outstanding bonds of approximately HK$4,777,000 and promissory notes of approximately HK$5,012,000 under non-current liabilities, which are due for repayment in 2020. Moreover, numerous legal claims were filed by its creditors in the PRC to demand repayments of the overdue payables of approximately RMB6,838,000 (equivalent to approximately HK$7,788,000) as explained further in note 35 to the consolidated financial statements. These conditions indicate the existence of a material uncertainty that might cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise the Group's asset and discharge the Group's liabilities in the normal course of business.

In this regard, the auditor of the Company issued a disclaimer of opinion on the consolidated financial statement of the Group for the year ended 31 December 2018 on material uncertainty on the Group's ability to continue as a going concern (the "**Audit Qualification**").

Actual or potential impact of the Audit Qualification on the Group's financial position

The Audit Qualification does not itself show any actual impact on the Group's financial position. As set out in note 3(b) to 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. Should the Group be unable to continue to operate in as a going concern, adjustments would have to be made to write down the value of the assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in the consolidated financial statements.

Management's position and basis on major judgmental areas

The management and the auditor have the same view on the basis on major judgmental areas, including the basis for impairment. The Group is principally engaged in coalbed methane gas exploration and exploitation and it is still in the exploration stage. Due to the nature of this industry and the comparatively high inherent risk associated with this business, the Group will make impairment when the carrying amount of the PSC exceeds its estimated recoverable amount, details of which have been set out in note 18(b) to the consolidated financial statements.

Audit committee's views towards the Audit Qualification

The audit committee reviewed and agreed with the management's position concerning the major judgmental areas and noted the Audit Qualification in the light of the financial position of the Group.

Proposed plans to address the Audit Qualification

The Board is satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration of the point (i) to (vii) as set out in note 3(b) to the consolidated financial statements.

The management recognises that further equity funding is required to resolve auditor's concern on the going concern issue. As such, the management has commenced to contact potential securities firms with a view to raise equity funds by way of placing of new shares of the Company under a general mandate and/or rights issues. The management will vigorously consider any feasible plan from the potential securities firms and will proceed as and when appropriate and practicable. The management intends to conduct the equity fund activities and successfully raise fund for the Group by the end of 2019.

BIOGRAPHICAL DETAILS OF DIRECTORS AND SENIOR MANAGEMENT

EXECUTIVE DIRECTORS

CHENG Wai Keung, aged 53, was appointed as an executive director of the Company in November 2010. He obtained a bachelor's degree in business administration from Hong Kong Baptist University in the early 1990's. Mr. Cheng has over 20 years of experience in Hong Kong financial market. He has extensive experience in investment and securities dealing and held senior positions in sales and marketing of various financial institutions in Hong Kong. Mr. Cheng has been appointed as the public relations manager of the Company since May 2010. He was an executive director of Grand Peace Group Holdings Limited, the securities of which are listed on the GEM Board of The Stock Exchange of Hong Kong Limited, for the periods from 23 August 2013 to 4 August 2016 and from 18 November 2016 to 16 March 2018.

TAM Tak Wah, aged 53, was appointed as an executive director and the corporate development director of the Company in September 2009. Mr. Tam is also the authorised representative of the Company. He is a fellow member of the Hong Kong Institute of Certified Public Accountants and a fellow member of the Association of Chartered Certified Accountants of the United Kingdom. He is appointed to membership of Disciplinary Panel of the Hong Kong Institute of Certified Public Accountants. Mr. Tam has over 25 years of experience in accounting, corporate finance and corporate development. He is currently an independent non-executive director of Future World Financial Holdings Limited and is a non-executive director of Kingbo Strike Limited, both companies are listed on the main board of The Stock Exchange of Hong Kong Limited. He was an independent non-executive director of Tech Pro Technology Development Limited during the period from 7 January 2011 to 17 March 2017 and an executive director of Skyway Securities Group Limited (now known as CMBC Capital Holdings Limited) during the period from 20 July 2015 to 22 November 2016, all of these companies are listed on the main board of The Stock Exchange of Hong Kong Limited.

TSANG Ching Man, aged 38, 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 42, was appointed as an independent non-executive director of the Company in September 2009. He is also the chairman and a member of the Audit Committee and a member of each of the Remuneration Committee and the Nomination Committee of the Company. Mr. Chan is a Certified Public Accountant in Hong Kong. He has over 15 years of working experience in public accounting. Mr. Chan was the chief financial officer of a company listed on the NASDAQ Exchange in the United States of America during the period from October 2010 to May 2016. He is currently the chief financial officer of another company listed on the NASDAQ Exchange in the United States of America.

CHAN Yim Por Bonnie, aged 52, 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 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 68, was appointed as chairman and independent non-executive director of the Company in July 2013. He is also the chairman and a member of the Nomination Committee and a member of each of the Audit Committee and the Remuneration Committee of the Company. Mr. Cheok graduated from the University of Adelaide, Australia, with a First Class Honours degree in Economics. He is a Fellow of the CPA Australia and is a banker with over 40 years of experience in banking in the Asia-Pacific region, particularly in Australia, Hong Kong and Malaysia. He was the chairman of Bangkok Bank Berhad in Malaysia for the period from September 1995 to November 2005 and was formerly the Deputy Commissioner of Banking of Hong Kong and an executive director in charge of Banking Supervision at the Hong Kong Monetary Authority. Mr. Cheok is currently a member of the Board of Governors of the Malaysian Institute of Corporate Governance in Malaysia.

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

WANG Li, aged 36, was appointed as an independent non-executive director of the Company in September 2009. He is also a member of each of the Audit Committee, the Remuneration Committee and the Nomination Committee of the Company. Mr. Wang obtained a Bachelor of Economics degree from Peking University in 2005 and a Master in Finance degree from the University of St. Andrews, United Kingdom in 2008. He was a research assistant of Skyone Securities Company Limited, a trust manager of CITIC Trust Company Limited and a senior manager of Hongyuan Huizhi Investment Company Limited. Mr. Wang is currently a manager of China Resources SZITIC Trust Company Limited.

SENIOR MANAGEMENT

LYU Guoping, aged 54, joined the Group as a project consultant in January 2011 and was appointed as chief executive officer of the Company in addition to his current position in July 2013. He currently also serves as a director and a legal representative of High-Spirited Investment Limited and a supervisor of Shenzhen Clouds Energy Technology Limited, both companies are subsidiaries of the Group in the People's Republic of China (the "**PRC**"). Mr. Lyu graduated from the Wuhan Institute of Geology (currently known as China University of Geosciences (Wuhan)) with a bachelor's degree in geology in 1983 and from the Nankai University with a doctor's degree in economics in 1996. He has over 25 years of experience in geology and mineral exploration, gems and jewelry, journalism and natural resources management in both private and public sectors in the PRC. Prior to joining the Group in January 2011, Mr. Lyu was the deputy general manager of China Resources Coal Holdings Co., Limited and has extensive experience in administration, law and policy, corporate management, asset acquisition and energy exploration.

DU Ming, aged 74, has been working in the oil and natural gas industry for more than 45 years. Currently, he is the chief technical officer of the Group and concurrently serve as the acting president of Canada Can-Elite Energy Limited, a wholly-owned subsidiary of the Group. Prior to this, Mr. Du worked at well known oil and gas organisations including China United Coalbed Methane Corporation, China National Petroleum Corporation and Sinopec Shengli Oilfield and took on important technological roles in these companies.

LIU Shaobin, aged 75, 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.

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 2018 (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 2017 and the six months ended 30 June 2018 respectively.

Composition

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

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

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

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

Board Meetings

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

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

	Attendance/Number of		
Name of Directors	**Board Meetings**	**Extraordinary General Meetings**	**Annual General Meeting**
Mr. Cheng Wai Keung	29/29	1/2	1/1
Mr. Tam Tak Wah	29/29	2/2	1/1
Ms. Tsang Ching Man	29/29	1/2	1/1
Mr. Chan Tsz Kit	20/20	2/2	1/1
Mr. Chan Yim Por Bonnie	20/20	1/2	1/1
Mr. Albert Saychuan Cheok	20/20	2/2	1/1
Mr. Wang Li	15/20	0/2	0/1

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

Chairman and Chief Executive Officer

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

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

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

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

Appointments, Re-election and Removal of Directors

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

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

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

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

Due to personal and/or other overseas commitment, Mr. Chan Yim Por Bonnie and Mr. Wang Li, both INEDs, did not attend the extraordinary general meeting ("**EGM**") held on 30 October 2018, and furthermore, Mr. Wang Li also did not attend the AGM held on 6 June 2018 and the EGM held on 25 July 2018, which constitutes a deviation from the code provision A.6.7 during the Year. However, at the respective general meetings of the Company, there were executive Directors and INEDs present to enable the Board to develop a balanced understanding of the views of the shareholders of the Company.

Board Diversity Policy

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

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

Directors' Continuous Training and Development Programme

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

All Directors are encouraged to participate in continuous professional development to develop and refresh their knowledge and skills. During the Year, all Directors are provided with updates on latest development and changes in the Listing Rules and other relevant legal and regulatory requirements. Some Directors also attended seminars and/or conferences and/or talks organised by professional bodies on topics including corporate governance, Listing Rules updates, legal supervising or financial updates. A summary of training received by Directors during the year ended 31 December 2018 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

BOARD COMMITTEE

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

Remuneration Committee

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

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

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

Nomination Committee

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

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

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

Audit Committee

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

Two meetings were held during the Year. The Audit Committee reviewed (i) the audited financial statements for the year ended 31 December 2017 and unaudited interim financial statements for the six months ended 30 June 2018 of the Group with recommendation to the Board for approval; (ii) the accounting policies adopted by the Group and issues related to accounting practices with the senior management and auditor of the Company, the audit scope and fees, and qualifications, independence and performance of the auditor of the Company; and (iii) the financial reporting system and internal control and risk management systems of the Group. The attendance record is set out below:

Name of Directors	**Attendance/Number of Audit Committee Meetings**
Mr. Chan Tsz Kit *(Chairman)*	2/2
Mr. Chan Yim Por Bonnie	2/2
Mr. Albert Saychuan Cheok	2/2
Mr. Wang Li	0/2

CORPORATE GOVERNANCE FUNCTIONS

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

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

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

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

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

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

INTERNAL CONTROL AND RISK MANAGEMENT

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

Internal Control

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

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

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

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

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

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

Risk Management

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

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

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

COMPANY SECRETARY

The company secretary is a full time employee of the Company. She is also the executive Director, the authorised representative and the chief financial officer of the Company. The company secretary has day-to-day knowledge of the Company's affairs. The company secretary reports to the chairman and is responsible for advising the Board on governance matters. For the Year under review, the company secretary has confirmed that she has taken no less than 15 hours of relevant professional training in accordance with Rule 3.29 of the Listing Rules. The biographical details of the company secretary are set out on page 16 of this annual report.

FINANCIAL REPORTING

Financial Reporting

The Directors acknowledge their responsibility for preparing the consolidated financial statements which give a true and fair view of the state of affairs of the Group as at 31 December 2018, 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.

The auditor of the Company issued a disclaimer of opinion on the consolidated financial statements of the Group for the year ended 31 December 2018 on material uncertainty on the Group's ability to continue as a going concern.

Reference is made to note 3(b) to the consolidated financial statements which set out the Group incurred a net loss attributable to owners of the Company of approximately HK$530,452,000 and a net cash outflow from operating activities of approximately HK$32,313,000 for the year ended 31 December 2018. As at 31 December 2018, the Group's current liabilities exceeded its current assets by approximately HK$54,914,000 and its total borrowings amounted to approximately HK$456,378,000 while its cash and cash equivalents amounted to approximately HK$6,161,000, net of restricted bank balances and pledged bank deposits of approximately HK$213,000. As at 31 December 2018, the Group recorded outstanding bonds of approximately HK$46,665,000 and promissory notes of approximately HK$14,228,000 which are due for repayment within the next twelve months. In addition, as at the same date, the Group recorded outstanding bonds of approximately HK$4,777,000 and promissory notes of approximately HK$5,012,000 under non-current liabilities, which are due for repayment in 2020. Moreover, numerous legal claims were filed by its creditors in the PRC to demand repayments of the overdue payables of approximately RMB6,838,000 (equivalent to approximately HK$7,788,000) as explained further in note 35 to the consolidated financial statements.

The Directors are aware of the indication of a material uncertainty which may cast significant doubt on the Group's ability to continue as a going concern. The details of the Audit Qualification and the proposed plan to address the Audit Qualification are set out in the section of "Details of Audit Qualification and Response from the Company" on pages 14 to 15 of this annual report and note 3(b) to the consolidated financial statements.

The Directors has prepared the financial statements on a going concern basis. The Audit Committee noted the Audit Qualification in light of the financial position of the Group and confirmed that it reviewed and agreed with management's position on preparing the financial statements on a going concern after taking into consideration of the point (i) to (vii) as set out in note 3(b) to 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 60 to 62 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:

	2018	2017
	HK$'000	*HK$'000*
Statutory audit	**630**	600
Review of interim results	**130**	130
Other non-audit services provided for:		
– Rights issue	**–**	141

SHAREHOLDERS' RIGHTS

Enquiries to the Board

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

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

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

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

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

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

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

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

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

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

- "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, which contains corporation information, interim and annual reports, announcements and circulars issued by the Company as well as the recent developments of the Company, to enable the shareholders of the Company to have timely and updated information of the Company. Shareholders can refer to the "Shareholders Communication Policy" posted on the website of the Company for more details.

CONSTITUTIONAL DOCUMENTS

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

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

On behalf of the Board
Albert Saychuan Cheok
Chairman

Hong Kong, 28 March 2019

I. ABOUT THIS REPORT

The board of directors (the "**Board**") of International Standard Resources Holdings Limited (the "**Company**") is pleased to present the Environmental, Social and Governance ("**ESG**") Report (the "**Report**") of the Company and its subsidiaries (hereinafter referred as the "**Group**"). The Report summarises the ESG policy, sustainability strategy, management approach, measures and performance of the Group.

The Report discloses ESG information in relation to the coalbed methane ("**CBM**") and electronic component businesses of the Group for the year ended 31 December 2018, and is prepared in accordance with the relevant requirements of 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 (the "**Stock Exchange**"). Detailed information about the ESG Reporting Guide of the Stock Exchange is provided at the end of the Report. The Report does not cover treasury business as it only accounts for 0.51% of the Group's revenue. During the reporting period, the Group has complied with the "comply or explain" provision of the ESG Reporting Guide.

The Board is responsible for the Group's ESG strategy and reporting and the evaluation and determination of the Group's ESG-related risks, as well as ensuring that appropriate and effective ESG risk management and internal control systems are in place. In order to determine the scope of the Report, the Group has discussed with management personnel and made a list of major stakeholders to determine and evaluate the ESG issues related to the Group. A summary of material ESG issues is listed in the Report.

II. STAKEHOLDER ENGAGEMENT

The Group is committed to maintaining the sustainable development of its businesses and providing support to environmental protection and the community in which it operates. The Group maintains a close tie with its stakeholders, including governments/regulatory bodies, shareholders/investors, employees, customers, suppliers and the community, and strives to balance opinions and interests through constructive communications so as to determine the direction for sustainability of the Group. The Group assesses and determines its ESG risks, and ensures that the relevant risk management and internal control systems are operating properly and effectively.

Stakeholders	Expectations and requirements	Management's response
Governments/ regulatory bodies	➢ Compliance with laws and regulations ➢ Fulfilment of tax obligation	➢ Uphold integrity and compliance in operations ➢ Pay tax on time in return contributing to the society ➢ Establish a comprehensive and effective internal control system
Shareholders/ investors	➢ Investment return ➢ Information transparency ➢ Corporate governance system	➢ The management has relevant experience and expertise to ensure sustainability in the businesses ➢ Publish information regularly through the websites of the Stock Exchange and the Company ➢ Endeavour to improve internal control and risk management

Stakeholders	Expectations and requirements	Management's response
Employees	➢ Labour rights ➢ Career development ➢ Remuneration and benefit ➢ Health and safety	➢ Establish contractual obligations to protect labour rights ➢ Encourage the participation of employees in continuous educational and professional trainings to enhance competencies ➢ Establish a fair, reasonable and competitive remuneration system ➢ Attach importance to occupational health and safety
Customers	➢ High quality products and services ➢ Timely delivery ➢ Reasonable price	➢ Continuously provide high quality products and services to meet customer needs ➢ Build an efficient and green supply chain ➢ Develop a comprehensive quality assurance process and recall procedure ➢ Ensure contractual obligations are fulfilled
Suppliers	➢ Stable supply ➢ Timely payment ➢ Maintaining good relationship with the Company ➢ Corporate reputation	➢ Ensure contractual obligations are fulfilled ➢ Develop supply chain management policy and procedure ➢ Maintain a steady and long term collaborative relationship ➢ Strictly select suppliers
Community	➢ Environmental protection ➢ Community involvement ➢ Economic development	➢ Pay attention to climate change ➢ Encourage employees to actively participate in charity events and voluntary services ➢ Ensure sound financial results and business growth

III. MATERIALITY MATRIX

During the reporting period, the Group has identified a number of environmental, social and operational related matters, and has evaluated the importance of each items on stakeholders and the Group through different channels. Such evaluation enabled the Group to ensure that its business development meets the expectations and requirements of the stakeholders, and matters that are of concern to the Group and the stakeholders are presented in the materiality matrix below.

Materiality Matrix

Importance to Stakeholders	Low	Medium	High
High	◆ Anti-discrimination ◆ Protection of human rights	◆ Human resource management ◆ Staff training and promotion ◆ Staff remuneration and benefit	➢ Customer satisfaction ➢ Product quality and safety ➢ Supplier management ◆ Occupational health and safety ✧ Cleaner production and green products
Medium		➢ Anti-corruption ➢ Protection of customer privacy ✧ Greenhouse gas emission ✧ Energy saving measures	➢ Operational compliance ➢ Social participation ✧ Air emission ✧ Wastewater discharge
Low	◆ Preventive measures on child and forced labour	✧ Water consumption ✧ Discharge of hazardous waste ✧ Discharge of non-hazardous waste	

Importance to the Group

✧ Environmental aspect ◆ Staff aspect ➢ Operational aspect

IV. ENVIRONMENTAL PROTECTION

1. Management of Emissions

Coalbed Methane Business

CBM is a type 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. According to The Outline of the 12th Five-Year Plan for National Economic and Social Development of the PRC (hereinafter the "**12th Five-Year Plan**"), new energy is one of the seven strategic emerging industries, with its foundation laid out in the "12th Five-Year Plan" and further emphasised in the "13th Five-Year Plan" by the PRC government who has been supporting the development of related industries. As such, developing the CBM business plays an important role in the country's plan to become a low-carbon economy. CBM is not only an effective alternative energy source for the PRC, the exploration and utilisation of it could also be helpful to avoid coal mine accidents as well as reducing the emission of methane, a type of greenhouse gas. To achieve the target of developing business in an economical, clean and safe way, the Group developed the CBM business in the PRC since 2008. The Group, via its wholly-owned subsidiary Canada Can-Elite Energy Limited ("**Can-Elite**"), runs the CBM business in Anhui Province, the PRC. Its principal business activities are coalbed methane exploration, development and production. Can-Elite entered into the production sharing contract with China United Coalbed Methane Corporation Limited ("**China United**", a state-owned CBM company wholly-owned by China National Offshore Oil Corporation and authorised by the PRC government to partner with foreign companies to explore, develop and produce CBM assets). Can-Elite and China United can explore and exploit the CBM assets in Su'nan, Anhui Province, for a term of 30 years starting in April 2008. The CBM operation was still in exploration stage.

In order to thoroughly implement the national environmental policy and comply with the requirements of laws and regulations such as the Environmental Protection Law of the People's Republic of China and the Regulations on the Administration of Construction Project Environmental Protection, the Group has the following measures regarding the management of air emission, wastewater discharge and disposal of solid waste:

(a) *Management of Air Emission*

CBM is a form of natural gas extracted from coal beds. It is generated through the thermal maturation of organic matters during the formation of coal underground. CBM is colorless, smell-less, non-toxic and with high calorific value. It consists mostly of methane, but may also contain trace amounts of propane, butane, carbon dioxide and nitrogen, etc. The composition of CBM slightly varies in different coal seams. During exploration, CBM is discharged from coal seams through exhaust pipes, to avoid wastage, the Group uses some of the CBM for gas equipment on well site; the rest is emitted through combustion process in accordance with national requirements. The Group ignites methane gas in the exit of the vents, transforming the gas into water vapour during this process, with no ash generated which helps reduce pollutants, nevertheless, carbon dioxide (a greenhouse gas) is produced during the combustion process. For detailed information about natural gas and related greenhouse gas emissions, please refer to the section headed "Energy Conservation – Natural Gas" below.

(b) *Management of Wastewater Discharge*

The presence of groundwater is used to maintain high pressure in the coal seam so that CBM can be absorbed into the solid coal matrix. CBM can be extracted from the coal seam using hydraulic fracturing technique in which coal or rock is fractured by a pressurised liquid. The process involves the high-pressure injection of "fracking fluid" which is primarily water, containing small amount of quartz sands 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 pressurised liquid is brought to the surface and discharged to a reservoir first. It may contain undesirable concentrations of dissolved substances such as potassium, sodium and other salt-type minerals. Only small amount of produced water is discharged during the exploration stage and after evaporation, small grain of crystal is deposited at the bottom of the reservoir. During the reporting period, the gas mining and production wells of the Group have discharged on aggregate approximately 3,371.95 cubic metres of water (2017: approximately 8,605.34 cubic metres). Water discharge varies across different wells, and as the Group has ceased production at multiple drilled wells at the end of June 2018, the wastewater discharge during the year has decreased by approximately 5,233.39 cubic metres or 60.82%.

(c) *Management of Disposal of Solid Waste*

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

Electronic Component Business

Electricity consumption in the office represents a major part of greenhouse gas emission. Therefore, various energy saving measures (for details, please refer to the section headed "Management of Resources Utilisation" below) have been undertaken to improve energy efficiency and reduce energy consumption in order to reduce the impact on the environment. The sale of electronic component business does not involve any production procedures. 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 mainly involves the collection and recycling of waste paper (for details, please refer to the section headed "Management of Resources Utilisation" below). No hazardous waste is generated in connection with this business.

2. Management of Resources Utilisation

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

(a) Energy Conservation

(i) *Gasoline and Diesel*

Gasoline and diesel are mainly used in vehicles, and diesel is also partially used for powering generators in the well site. The Group has established a management system for the use of business cars to strictly control the use of business cars and fuel, and has developed fuel reduction measures, minimised the frequency of business car trips, reduced unnecessary car despatches and encouraged the use of public transports in order to conserve the use of fuel. Vehicle management personnel's and drivers' operation skills are trained up and business cars maintenance and repair are enhanced to ensure maximum fuel efficiency. During the reporting period, the Group recorded fuel consumption of approximately 16.28 tonnes, representing a decrease of approximately 14.70 tonnes or 47.45% as compared to the previous year, which was mainly due to the decrease of greenhouse gas emission as a result of the scale down in CBM business, the ceased production of certain drilled wells and a decrease of 3 vehicles from the previous year.

(ii) *Natural Gas*

CBM is a type of natural gas. As the CBM business is still in exploration stage, a small portion of CBM is used for gas equipment on well site, the rest is emitted through combustion process in accordance with national requirements. The Group requires staff at well site to turn off gas equipment when not in use; gas pipes are inspected every one to two weeks to prevent gas leakage and avoid wastage and safety issues. During the reporting period, the gas mining and production wells of the Group have produced on aggregate approximately 1,037,100 m^3 of gas (2017: approximately 1,073,900 m^3), among which approximately 1,013,400 m^3 (2017: approximately 1,072,000 m^3) of CBM is emitted through combustion process.

The direct energy consumption and Scope 1 greenhouse gas emission generated by businesses of the Group during the reporting period are as follows:

	2018		(Restated)[1] 2017	
	Consumption	**CO_2-e (tonnes)**	Consumption	CO_2-e (tonnes)
CBM business:				
Gasoline	**8.64 tonnes**	**26.82**	16.54 tonnes	56.59
Diesel	**1.85 tonnes**	**5.19**	8.14 tonnes	19.18
Natural gas	**1,037,100 m^3**	**1,899.41**	1,073,900 m^3	1,966.81
Total emission from businesses		**1,931.42**		2,042.58
Emission intensity from businesses[2]		**109.86**		80.89
Holding company and electronic component business:				
Gasoline	**5.79 tonnes**	**19.56**	6.30 tonnes	21.56
Total emission from businesses		**19.56**		21.56
Emission intensity from businesses[2]		**1.44**		1.18
Total emission by the Group		***1,950.98***		*2,064.14*

1 Certain data from the previous year are restated for comparison purpose.

2 The emission intensity for the CBM business and for the holding company and electronic component business are calculated on the basis of the number of drilled wells and the sales volume per one million units respectively.

(iii) *Electricity*

Strict requirements regarding electricity use at well site are established. Operating time for 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 to be repaired or replaced immediately. Complete inspection and maintenance record are maintained.

Energy management system sets out various measures on saving electricity and improving energy efficiency of electrical appliances. Staff is encouraged to change their habits in using electrical appliances. These measures include prohibit the use of high-power appliances, the use of energy-saving lights, making full use of natural light, switching off electrical appliances such as 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 regularly to enhance its efficiency level. The Group requires that when deciding on the purchase of electrical equipment, equipment that are environmentally-friendly, high quality, affordable and have low energy consumption should be preferred whenever possible.

During the reporting period, total electricity consumption of the Group amounted to 191.71 megawatt hours mainly due to the low production volume of some drilled wells which have ceased production, and as a result the electricity consumption for CBM business has decreased by approximately 117.06 megawatt hours or 45.01% as compared to the previous year. As the staffs actively support the Group's energy saving measures, during the reporting period, electricity intensity for the CBM business of the Group has reduced as compared to the previous year.

The indirect energy consumption and Scope 2 greenhouse gas emission generated by businesses of the Group during the reporting period are as follows:

	2018		(Restated)[1] 2017	
	Electricity consumption (Mwh)	**CO_2-e (tonnes)**	Electricity consumption (Mwh)	CO_2-e (tonnes)
CBM business:				
Total emission	**143.00**	**116.68**	260.06	211.80
Emission intensity[2]		**6.64**		8.39
Holding company and electronic component business:				
Total emission	**48.71**	**30.69**	52.51	36.47
Emission intensity[2]		**2.26**		1.99
Total emission by the Group		***147.37***		*248.27*

1 Certain data from the previous year are restated for comparison purpose.

2 The emission intensity for the CBM business and for the holding company and electronic component business are calculated on the basis of the number of drilled wells and the sales volume per one million units respectively.

(b) ***Water Conservation***

The water used by the Group is supplied by local governments and mainly used in exploration process and daily life. The Group is well aware of the importance of water resource to the exploration process and to satisfy daily needs. During the reporting period, the Group did not have any issue in sourcing water, however, the Group has always focused on the consumption of water resource and developed various policies and systems to regulate the operations of their water consumption and actively take measures to educate staff on the importance of water conservation. It is important that drinking water is not used for other purposes; water flow should be controlled with water faucets running as little as possible and turned off after washing hands. The engineering department inspects water equipment such as pipelines, valves and pumps regularly to prevent water leakage and wastage; if problem is found, they are to be repaired or replaced immediately and a complete inspection record should be maintained; rubbish and debris disposal to sewers is prohibited to prevent blockage.

(c) ***Paper Conservation***

Paper is an important natural resource and is sourced through central procurement. The Group promotes the concept of paperless office and encourages its staff to distribute files via electronic means to reduce paper consumption from photocopying, fax and printing. To optimise the use of paper, one-side used papers are reused whenever possible for photocopying and printing, and double-side used papers are gathered in a recycled paper collection box and collected by qualified recyclers for their handling. During the reporting period, the Group's operation has consumed a total of 2.26 tonnes (2017: 2.39 tonnes) of paper.

Compliance

During the reporting period, both CBM business and electronic component business of the Group have strictly abide by the environmental laws and regulations of the PRC and Hong Kong, and there were no confirmed illegal and 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 environment and natural resources during the exploration, pilot testing and overall development proposal preparation stages of the CBM business is not significant, the Group actively prevents and remediates environmental impact resulted from its own activities and protects the biodiversity of living species and natural habitats. The Group has established policies and procedures to mitigate the impact of its operation on the environment and natural resources as detailed in the section headed "Management of Emissions" above. The Group focuses on the environmental education and advocacy among staff, and implements various resource saving measures to raise the awareness of employees of the importance of resource conservation, encourage them to fully utilise resources to maximum efficiency and eliminate wastage in the utilisation of resources as detailed in the section headed "Management of Resources Utilisation" above.

V. EMPLOYMENT AND LABOUR PRACTICES

The Group considers its employees as its most important partner. Therefore, a comprehensive talent management mechanism has been established to attract and retain competent talents for sustainable development. The Group is devoted to create a non-discriminatory, equal, harmonious and safe workplace and build up a relationship of mutual respect with employees, encourages employees to be innovative, flexible and committed when accomplishing the goals of providing high quality products and services to customers. The Group provides commensurate remuneration, personal and career development training, as well as various fringe benefits, which help the Group to create a favourable condition to attract, retain and reward talents. The Group also cares for the career, personal life and well-being of its employees, and organises various activities to enrich their life and promote team cohesion.

Talent Selection

The Group advocates equal opportunities and respect of personal privacy and has established relevant policies. The Group bases its selection criteria on character, knowledge and expertise, ability and job requirements, and provides fair employment opportunities to individuals of different races, religions, genders or ages. These policies apply to all phases of employment relationships, including but not limited to, recruitment, promotion, performance appraisal, training, personal development and employment termination.

Labour Standards

The Group respects human rights and safeguards labour rights and interests. The Group strictly prohibits child labour and forced labour in accordance with applicable laws and regulations. During the recruitment process, background checks and verifications are conducted to prevent unlawful employment. The working hours of staff are required to be in line with relevant local labour laws and regulations; staff consent must be obtained for any necessary overtime arrangement, and they must be compensated in accordance with the laws and regulations to prevent any forced overtime work. During the reporting period, the Group has complied with labour laws and regulations, and did not hire child labour under the legal working age or engaged in forced labour.

Compensation and Welfare

The Group attracts and retains talents with competitive remuneration packages, reviews the remuneration level of different ranks of staff regularly and collects remuneration data for the labour industry with an aim to establish a fair, reasonable and highly competitive remuneration system. Staff remunerations are determined by reference to factors such as knowledge and skills, experiences and level of education required by the specific job. Basic remuneration packages for employees include salary, bonus and various subsidies (such as overtime pay, meal allowance, telecommunication allowance, housing subsidy, holiday allowance and marriage subsidy, etc.). The Group conducts performance appraisal regularly and assesses the bonus amounts, level of pay raise and/or promotion recommendations granted to staff in an equal manner based on multiple criteria, such as work experience, seniority, knowledge and skill, performance and contribution, etc. Other welfare includes hospitalisation/medical protection, general body check subsidy and work injury compensation insurance, etc. In the event of death due to illness or disability or death caused by work injury, the PRC employees or his/her supporting immediate families are entitled to disability grants or one-time pension in accordance with law requirements.

The Group provides social security benefits for all employees in accordance with local labour laws and social security laws and regulations to safeguard the employee's rights to rests and holidays. Staff in the PRC operation participate in the social security scheme, the five insurances scheme and housing provident fund; staff in Hong Kong operation participate in the mandatory provident fund scheme. All employees are entitled to rest days and statutory holidays, including statutory festive holiday, paid annual leave, sick leave, marriage leave, maternity leave, paternity leave and compassionate leave. The Group cares for the well-being of employees and recognises the importance of work-life balance to the Group, therefore, the Group develops basic work hour and overtime system according to difference business needs, with the hope to enable employees to achieve work-life balance. The office implements a 5-day work policy. Staff at well site takes up duty and leave according to the roster prepared by respective department head; working hours in office and well site are in line with relevant local laws and regulations. The Group terminates and compensates staff in accordance with local laws and regulations.

Development and Training

A high quality team is vital to the sustainable and long term development of the Group, as such, the Group has developed a long term talent training strategy. Each operation develops its training programs for staff according to actual needs, explores the potential of staff, improves work performance and cultivates good learning atmosphere. The Group hopes to continuously improve the knowledge and management level of the staff through training, increase their ability to perform duties, so as to improve work performance and efficiency, enhance career incentives and foster teamwork among the staff.

The Group provides both internal and external trainings to staff in the PRC. Internal training covers professional knowledge, industry information, management skills, and other knowledge and information that are of interests to staff. Internal training is conducted in the form of lecture or seminar or conference meeting. The staff shall express their opinions after the training on various aspects such as the training content, format and instructor, which form the basis for future improvement. External training can be divided into (1) regular practical training (involves professional technical knowledge, selling skills, management approach, leadership skills, corporate mission, etc.); (2) training for senior management (including corporate strategies and development, etc.); and (3) self education (such as professional technical certification, etc.). For professional staff, such as mining staff at well site, they are required to undergo rigorous safety production and knowledge training (for details, please refer to the section headed "Health and Safety" below), to ensure occupational safety.

The Group provides on-the-job training to staff in Hong Kong. For new staff, they receive training on corporate culture, industry knowledge, job responsibilities and so on, from personnel department and other department heads. Directors and professional staff such as chief financial officer, finance manager, company secretary and accountant, etc., participate regularly in external trainings which are given in the form of lecture organised by professional bodies. During the reporting period, training topics includes corporate governance, ethical conduct of accountants, merger and acquisition, anti-money laundering, etc.

Health and Safety

In order to consistently implement a "Safety First and Take Good Precaution" principle, the Group adopts the "Management Requirement in Well Site Construction Environment", which strengthens its safety management on CBM mining to prevent fire outbreak, explosion, personal injury and death and to protect the safety of nation and people lives and property. The Group adopts a health, safety and environment management system, which is 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, use of vehicles and fire suppression system. 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 plans and solutions should be established. The Group deploys safety personnel in well site to perform random inspections; while external personnel who needed to enter the well site is required to undergo safety briefings prior to being granted access.

In order to effectively prevent and deal with emergencies in each construction site, and to ensure the safety of field staff and equipment, the Group has established the "Emergency Response Plan for Construction Site Safety". Basic principles include placing personal safety above all else, and reduce loss as much as possible. In case of emergency, on-site staff must report to the emergency response team at once and immediately carry out self-rescue. Each member of the emergency response team should stay alert at all times, coordinate all communication channels, reserve adequate emergency vehicles on standby, and wait for instructions and arrangements made by the security and safety department. The emergency response team must submit investigation report after the incident, issue relevant warnings to all departments, and reflect on and implement improvement measures to avoid further similar incidents.

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

The Group provides its staff with safety and hygienic working environment that is in line with national regulations and necessary protective equipment. Clear and visible warning signs are placed in CBM wells, for example “Wear Helmet at all times”, “Wear Protective Clothing at all times”, “No Fires in the Well”, “Beware of Electric Shock”, “No Entry”, etc. The Group arranges regular health check for staff who engages in high risk works. Staff can enjoy comprehensive body checks annually, usually carried out during August and September every year. In addition to the insurance required by the state, the Group also purchases accident insurance for staff. The Group invites fire service department to carry out fire safety training for staff regularly, organises fire drills and keep fire extinguishers in good condition with regular checkup to ensure fire safety.

For the health and safety management of the office, the Group takes a comprehensive preventive approach to prevent illness and injury occurrence as part of its management practice. The Group provides its staff with a healthy and safe working environment, including the provision of first aid supplies and etc. All staffs are expected to give their unconditional support to maintain a healthy, smoke-free working environment. Smoking is absolutely prohibited in office area.

Compliance

During the reporting period, the Group was not involved in confirmed illegal and non-compliance incidents in relation to employment, health and safety and labour standards that have a significant impact on the Group.

VI. OPERATIONAL PRACTICES

Supply Chain Management

The Group conveys its standards and expectations in respect of environment issues to suppliers and business partners, with the expectation that they will uphold the standards of the Group. The Group wishes to achieve co-development with competent suppliers on the basis of equality and a win-win partnership, while developing long term, stable and strategic cooperative relationships. Prior to entering a contract with key business partners, the Group insists on conducting assessment to evaluate the quality as well as moral standards of business partners based on a variety of criteria, including their attitude towards environmental and social issues. Therefore, the Group has established a stringent system of internal rules and regulations in selection of suppliers. For supply chain management, the Group has put in place strict regulations to enable employees, suppliers, customers and other individuals related to the business of the Group to report any violations of laws or regulations regarding any misuse of job position. During the reporting period, the Group had not received reports on any significant violations in this respect.

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

Electronic component business involves resale of electronic components. Strict procurement management system is established for the selection of suppliers and products; and strict product quality control are applied. In order to ensure the competitiveness of suppliers, high quality of products and services, timely delivery and compliance with laws and regulations, the Group requires strict segregation of duties throughout the whole procurement process.

Product Responsibility

To provide quality and safety products, strict procurement management system is established for the electronic component 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, including but not limited to, customer list, projects, price, sales contracts (whether oral, written or in computer form) are required to keep them confidential. Employees are subject to disciplinary punishment in case of violations.

During the reporting period, the Group was not involved in confirmed illegal and non-compliance incidents in relation to product responsibility that have a significant impact on the Group.

Anti-corruption

The Group advocates obedience to the law, uprightness, honesty and conducting business with high integrity, strictly regulates the conduct of directors, management members and staff, demands all staff to develop a habit of compliance with regulations and eliminates all bribery acts. The Group has established the "Staff Code of Conduct" and "Regulations regarding Anti-Corruption and Staff Probity and Self-Discipline" and has set out a range of standards and reporting methods regarding anti-corruption, such as the prevention of bribery, extortion, fraud and money laundering. Disciplinary inspection and monitoring works are embedded into the production and operation process to ensure any violation of rules, regulations and laws, such as the misuse of job position for personal gain, bribery, extortion, fraud and money laundering, can be reported in absolute confidentiality through existing complaint box and hotline. The Group is determined in fighting against corruption and strives to contribute to the building of a corruption-free society. Employees are required to attend relevant trainings on business ethics before taking up their job duties. Employees who are in breach of the Company's code of conduct are subject to disciplinary actions or even a straight dismissal.

During the reporting period, the Group or its employees were not involved in any litigation cases in relation to corruptions.

VII. COMMUNITY INVESTMENT

As air pollution problem grows increasingly serious in the PRC, the development of clean energy has become very imminent. In order to cope with the "12th Five-Year Plan", the National Energy Administration developed the "Coalbed Methane Industry Policy" in 2013 with an aim to promote and develop the CBM industry in the PRC. CBM is a valuable energy resource generated in coal and coal strata, its calorific value is equivalent to natural gas. The CBM industry is a rising energy industry, the development of CBM industry 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 coalbed methane gas, to help reduce air pollution and contribute to environmental protection.

Furthermore, the Group is a responsible tax payer, and spares no effort in easing local employment pressure. The Group pays the five insurances and housing provident fund for employees in the PRC, and contributes to the mandatory provident fund scheme for employees in Hong Kong. The Group always exercises best practice in business operation, actively promotes green concepts and creates a favourable development atmosphere, and has contributed to maintaining a stable society and building a harmonious community.

VIII. VISION OUTLOOK

As a good corporate citizen, the Group hopes to balance between achieving corporate missions and business objectives and fulfill social responsibilities. The Group will continue to place emphasis on environmental protection, employee care, product/service quality and community contribution, so as to create new advantages for sustainable development.

As for environmental protection, the Group will endeavor to comply with the increasingly stringent environmental protection laws and regulations, allocate resources in improving exhaust air, sewage and waste treatment facilities. When it comes to employee care, the Group prioritises employee satisfaction and production safety to ensure a safe and quality working environment and attract more talents in the technical and management arenas through a competitive system. As far as product quality and customer service are concerned, to provide products with higher quality to customers, the Group will continuously put in resources to improve product quality. For community contribution, the Group is committed to fulfilling its aspiration to assume social responsibility by actively participating in charitable activities and promoting the sustainable development of the community.

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

IX. ENVIRONMENTAL PERFORMANCE DATA SUMMARY

	Unit	CBM business		Holding company and electronic component business		Total	
			(Restated)[6]		(Restated)[6]		(Restated)[6]
		2018	2017	**2018**	2017	**2018**	2017
Greenhous gas:							
Scope 1[1]:							
Total	Tonnes	**1,931.42**	2,042.58	**19.56**	21.56	**1,950.98**	2,064.14
Intensity[3]	Tonnes	**109.86**	80.89	**1.44**	1.18	**N/A**	N/A
Scope 2[2]							
Total	Tonnes	**116.68**	211.80	**30.69**	36.47	**147.37**	248.27
Intensity[3]	Tonnes	**6.64**	8.39	**2.26**	1.99	**N/A**	N/A
Total air emission:							
Nitrogen oxide	Tonnes	**2.41**	4.91	**1.66**	1.83	**4.07**	6.74
Sulfur oxide	Tonnes	**0.21**	0.40	**0.13**	0.15	**0.34**	0.55
Particulate matter	Tonnes	**0.31**	0.57	**0.18**	0.19	**0.49**	0.76
Non-hazardous waste:							
Wastewater emission:							
Total	m^3	**3,371.95**	8,605.34	**–**	–	**3,371.95**	8,605.34
Intensity[3]	m^3	**191.81**	340.81	**–**	–	**N/A**	N/A

	Unit	CBM business		Holding company and electronic component business		Total	
			(Restated)[6]		(Restated)[6]		(Restated)[6]
		2018	2017	**2018**	2017	**2018**	2017
Energy and water consumption:							
Electricity:							
Total	Mwh	**143.00**	260.06	**48.71**	52.51	**191.71**	312.57
Intensity[3]	Mwh	**8.13**	10.30	**3.58**	2.87	**N/A**	N/A
Diesel:							
Total	Tonnes	**1.85**	8.14	**–**	–	**1.85**	8.14
Intensity[4]	Tonnes	**0.06**	0.16	**–**	–	**N/A**	N/A
Gasoline:							
Total	Tonnes	**8.64**	16.54	**5.79**	6.30	**14.43**	22.84
Intensity[3]	Tonnes	**0.27**	0.32	**0.43**	0.34	**N/A**	N/A
Natural gas:							
Total	m^3	**1,037,100.00**	1,073,900.00	**–**	–	**1,037,100.00**	1,073,900.00
Intensity[3]	m^3	**58,993.17**	42,530.69	**–**	–	**N/A**	N/A
Water resource:							
Total[5]	m^3	**–**	72.00	**1.80**	1.78	**1.80**	73.78
Intensity[3]	m^3	**–**	2.85	**0.13**	0.10	**N/A**	N/A

1 Scope 1 represents greenhouse gas emission generated directly from the Group's operation, including combustion of diesel, gasoline and natural gas.

2 Scope 2 represents the "indirect" greenhouse gas emission resulted from the internal consumption of purchased electricity by the Group's operation.

3 The emission intensity for the CBM business and for the holding company and electronic component business are calculated on the basis of the number of drilled wells (except for the intensity of diesel consumption) and the sales volume per one million units respectively.

4 The diesel consumption intensity of the CBM business is calculated on the basis of the average number of staff for the entire year.

5 Water charges for the year were included in the management fees, as the property management company were unable to provide the water consumption data relating to the Group's operation, the Group did not disclose such information in this report.

6 Certain data from the previous year are restated for comparison purpose.

X. ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE STOCK EXCHANGE OF HONG KONG LIMITED

Key Performance Indicators	Reporting Guide	Page(s)
A. Environmental		
Aspect A1	**Emissions**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.	p. 35-36
KPI A1.1	The types of emissions and respective emissions data.	p. 35-36
KPI A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	p. 36-38, 46
KPI A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	N/A *(note 1)*
KPI A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	p. 36, 46
KPI A1.5	Description of measures to mitigate emissions and results achieved.	p. 35-36
KPI A1.6	Description of how hazardous *(note 1)* and non-hazardous wastes are handled, reduction initiatives and results achieved.	p. 36
Aspect A2	**Use of Resources**	
General Disclosure	Policies on the efficient use of resources, including energy, water and other raw materials.	p. 36-39
KPI A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in ’000s) and intensity (e.g. per unit of production volume, per facility).	p. 36-38, 46-47
KPI A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	p. 47
KPI A2.3	Description of energy use efficiency initiatives and results achieved.	p. 36-39
KPI A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	p. 39
KPI A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	N/A *(note 1)*
Aspect A3	**Environment and Natural Resources**	
General Disclosure	Policies on minimising the issuer’s significant impact on the environment and natural resources.	p. 39
KPI A3.1	Description of the significant impacts of business activities on the environment and natural resources and the actions taken to manage them.	p. 39

Key Performance Indicators	Reporting Guide	Page(s)
	B. Social ***(note 2)***	
Aspect B1	**Employment**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.	p. 40-41
Aspect B2	**Health and Safety**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	p. 42-43
Aspect B3	**Development and Training**	
General Disclosure	Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities.	p. 41-42
Aspect B4	**Labour Standards**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	p. 40
Aspect B5	**Supply Chain Management**	
General Disclosure	Policies on managing environmental and social risks of the supply chain.	p. 43-44
Aspect B6	**Product Responsibility**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	p. 44
Aspect B7	**Anti-corruption**	
General Disclosure	Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to prevention of bribery, extortion, fraud and money laundering.	p. 45
Aspect B8	**Community Investment**	
General Disclosure	Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.	p. 45

Notes:

1. The Group's main businesses are the exploration of coalbed methane and the resale of electronic components, which did not generate any hazardous waste and use any packaging material.

2. Pursuant to Appendix 27 of the Main Board Listing Rules, the key performance indicators under "Subject Area B. Social" are recommended disclosures only. Therefore, the Group chose not to disclose these key performance indicators.

REPORT OF THE DIRECTORS

The Directors submit their report together with the audited consolidated financial statements for the year ended 31 December 2018.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. The principal activities of its subsidiary companies are set out in note 19 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 63.

The Directors do not recommend the payment of a dividend in respect of the year ended 31 December 2018.

BUSINESS REVIEW

A fair review of the businesses of the Group, discussion and analysis of the performance of the Group during the year and the material factors underlying its financial performance and financial position as well as the principal risks and uncertainties facing the Group, as required by Schedule 5 to the Hong Kong Companies Ordinance, is set out in the section of "Chairman's Statement" and "Management Discussion and Analysis" on pages 2 to 9 and pages 10 to 15 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.

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.

PROPERTY, PLANT AND EQUIPMENT

Details of the movements in property, plant and equipment of the Group are set out in note 17 to the consolidated financial statements.

RESERVES

Movements in reserves of the Group during the year are set out in consolidated statement of changes in equity on page 67 and the movements in the reserves of the Company during the year are set out in note 38 to the consolidated financial statements.

SHARE CAPITAL

Details of movements in the share capital of the Company are set out in note 30 to the consolidated financial statements.

EQUITY-LINKED AGREEMENTS

Convertible notes

On 24 August 2018, the Company entered into the convertible notes restructuring agreement with the noteholder, pursuant to which the noteholder agreed to a consensual restructuring of its rights and obligations under the existing convertible notes due 31 December 2018 in the outstanding principal amount of HK$365,000,000 issued by the Company. The new HK$365,000,000 2 per cent convertible notes due 31 December 2021 entitling the noteholder to convert up to an aggregate of 2,281,250,000 shares were issued to the noteholder on 6 November 2018. Since the issue is made pursuant to restructuring, issuance of the new convertible notes did not raise any new funds for the Company. As at 31 December 2018, convertible notes with principal amount of HK$365,000,000 remained outstanding.

Details of movements in the convertible notes are set out in note 29 to the consolidated financial statements.

Share options

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

(1) Purpose

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

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

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

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

(2) Eligible participants

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

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

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

(3) Total number of shares available for issue

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

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

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

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

(4) Maximum entitlement of each eligible participant

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

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

(5) Option period

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

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

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

(7) Payment on acceptance of the Option

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

(8) ***Basis of determining the subscription price***

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

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

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

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

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

As at 31 December 2018, 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 47,907,934 shares, being 10% of the number of shares in issue on 7 June 2017 and adjusted for the effect of the share consolidation completed during the year, representing approximately 10% of the number of shares of the Company in issue.

EVENTS AFTER THE REPORTING PERIOD

The Group had no 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. Chan Yim Por Bonnie, Ms. Tsang Ching Man 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. Lee Wai Nam, Mr. Lyu Guoping, Mr. Ngai Kwok Kin Kevin and Mr. Wang Zhiyuan.

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on the remuneration of senior management of the Group. Details of the emoluments of each Director and the chief executive of the Company for the year ended 31 December 2018 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 2018 is set out below:

	Number of individuals	
	2018	2017
Remuneration bands		
Nil to HK$500,000	**2**	2
HK$500,001 to HK$1,000,000	**–**	1

PERMITTED INDEMNITY PROVISION

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

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

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

As at 31 December 2018, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code contained in the Listing Rules were as follows:

Long positions in shares of the Company

Name of Director/Chief Executive	Nature of interest	Number of shares	Number of underlying shares	Percentage
Albert Saychuan Cheok	Beneficial	61,875	–	0.01%
Lyu Guoping	Beneficial	25,000	–	0.01%

Save as disclosed above, as at 31 December 2018, none of the Directors and chief executive of the Company had or was deemed to have any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which (i) were required to be notified to the Company and the Stock Exchange pursuant to Divisions 7 and 8 of Part XV of the SFO (including interests and short positions in which they were taken or deemed to have under such provisions of the SFO); or (ii) were required, pursuant to section 352 of the SFO, to be entered in the register referred to therein; or (iii) were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

ARRANGEMENT FOR THE ACQUISITION OF SHARES OR DEBENTURES

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

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

As at 31 December 2018, the interests and short positions of the substantial shareholders (other than the Directors and chief executive of the Company) in the shares and underlying shares of the Company which were notified to the Company and the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO and required to be kept in the register under section 336 of the SFO were as follows:

Name	Nature of interest	Number of shares	Number of underlying shares	Percentage
Che Weng Kei *(note 1)*	Beneficial/ Corporate	125,995,625	–	26.29%
Good Max Holdings Limited *(note 2)*	Beneficial	29,355,875	–	6.13%
Leung Yuk Kit *(note 2)*	Corporate	29,355,875	–	6.13%
New Alexander Limited *(note 3)*	Beneficial	–	2,281,250,000	476.07%
Styland Holdings Limited *(note 4)*	Corporate	56,318,744	–	11.75%
Styland (International) Limited *(note 4)*	Beneficial	34,660,994	–	7.23%

Notes:

(1) Included 95,568,125 shares held by Che Weng Kei through a wholly-owned company, Fully Interest Limited.

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

(3) New Alexander Limited is interested in the convertible notes convertible into shares issued by the Company due in 2021 in an aggregate outstanding principal amount of HK$365,000,000 as at 31 December 2018.

(4) Included 34,660,994 shares held through its wholly-owned subsidiary, Styland (International) Limited; and 21,657,750 shares held through its non-wholly-owned subsidiary, Brighten Management Limited.

Save as disclosed above, as at 31 December 2018, the Company has not been notified of any other interests or short positions in shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

DIRECTORS' INTERESTS IN COMPETING BUSINESS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

MANAGEMENT CONTRACTS

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

MAJOR CUSTOMERS AND SUPPLIERS

The aggregate revenue during the year attributable to the Group's five largest customers was 94.18% of the Group's total revenue, of which 53.10% was made to the largest customer.

The aggregate purchase during the year attributable to the Group's five largest suppliers was 99.20% of the Group's total purchases, of which 82.14% was made from the largest supplier.

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

ANNUAL CONFIRMATION OF INDEPENDENCE

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

COMPLIANCE WITH THE CODE OF BEST PRACTICE

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

SUFFICIENCY OF PUBLIC FLOAT

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

AUDITOR

The consolidated financial statements of the Company for the years ended 31 December 2017 and 2018 were audited by HLM CPA Limited ("**HLM**"). HLM will retire as auditor at the conclusion of the forthcoming annual general meeting and, being eligible, offer themselves for re-appointment. A resolution for the re-appointment of HLM as auditor of the Company will be proposed at the forthcoming annual general meeting.

On behalf of the Board
Albert Saychuan Cheok
Chairman

Hong Kong, 28 March 2019

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)

DISCLAIMER OF OPINION

We were engaged to audit 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 63 to 171, which comprise the consolidated statement of financial position as at 31 December 2018, and the consolidated statement of profit or loss, 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.

We do not express an opinion on the consolidated financial statements of the Group. Because of the significance of the matter described in the Basis for Disclaimer of Opinion section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and as to whether the consolidated financial statements have been properly prepared in compliance with the Hong Kong Companies Ordinance.

BASIS FOR DISCLAIMER OF OPINION

As set out in note 3(b) to the consolidated financial statements, the Group incurred a net loss attributable to owners to the Company of approximately HK$530,452,000 and a net cash outflow from operating activities of approximately HK$32,313,000 for the year ended 31 December 2018. As at the same date, the Group's current liabilities exceeded its current assets by approximately HK$54,914,000 and its total borrowings amounted to approximately HK$456,378,000 while its cash and cash equivalents amounted to approximately HK$6,161,000, net of restricted bank balance and pledged bank deposits of approximately HK$213,000. As at 31 December 2018, the Group recorded outstanding bonds of approximately HK$46,665,000 and promissory notes of approximately HK$14,228,000 which are due for repayment within the next twelve months. In addition, as at the same date, the Group recorded outstanding bonds of approximately HK$4,777,000 and promissory notes of approximately HK$5,012,000 under non-current liabilities, which are due for repayment in 2020. Moreover, numerous legal claims were filed by its creditors in the PRC to demand repayments of the overdue payables of approximately RMB6,838,000 (equivalent to approximately HK$7,788,000) as explained further in note 35 to the consolidated financial statements.

The directors of the Company have been undertaking certain measures to improve the Group's liquidity and financial position which are set out in note 3(b) to the consolidated financial statements. The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the outcome of these measures, which are subject to the following uncertainties, including (i) whether the Group is able to obtain financing when required, the attainability depends on the performance of the Group; (ii) whether the Group is able to generate sufficient cash flow from operations and plans to control costs, the attainability depends on the market performance.

These facts and circumstances, along with other matters as described in note 3(b) to the consolidated financial statements, indicate the existence of material uncertainties that may cast significant doubt on the Group's ability to continue as a going concern.

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

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 Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants ("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 responsibility is to conduct an audit of the Group's consolidated financial statements in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA and to issue an auditor's report. However, because of the matter described in the Basis for Disclaimer of Opinion section of our report, we were not able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements.

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.

REPORT ON OTHER MATTERS UNDER SECTIONS 407(3) OF THE HONG KONG COMPANIES ORDINANCE

In respect alone of the inability to obtain sufficient appropriate audit evidence as described in the Basis for Disclaimer of Opinion section of our report above:

- we have not obtained all the information or explanations that, to the best of our knowledge and belief, are necessary and material for the purpose of the audit.

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

28 March 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	**2018** ***HK$'000***	2017 *HK$'000*
Revenue	7	**9,109**	16,669
Cost of sales		**(8,181)**	(14,611)
Gross profit		**928**	2,058
Other income	8	**1,290**	1,937
Other gains and losses	9	**(59,876)**	87,821
Administrative expenses		**(50,754)**	(53,711)
Amortisation of production sharing contract	18	**(51,228)**	(64,663)
Reversal of impairment losses (impairment losses) on trade receivables		**90**	(1,046)
Impairment loss on production sharing contract	18	**(454,192)**	(323,032)
Loss from operations		**(613,742)**	(350,636)
Finance costs	10	**(44,132)**	(53,006)
Loss before tax	11	**(657,874)**	(403,642)
Income tax	14(a)	**127,083**	99,495
Loss for the year		**(530,791)**	(304,147)
Attributable to:			
Owners of the Company		**(530,452)**	(303,913)
Non-controlling interests		**(339)**	(234)
		(530,791)	(304,147)
			(Restated)
Loss per share	16		
Basic and diluted *(HK$ per share)*		**(1.11)**	(0.69)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE YEAR ENDED 31 DECEMBER 2018

	2018 *HK$'000*	2017 *HK$'000*
Loss for the year	**(530,791)**	(304,147)
Other comprehensive (expense) income		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**(33,081)**	66,834
Other comprehensive (expense) income for the year, net of income tax	**(33,081)**	66,834
Total comprehensive expenses for the year	**(563,872)**	(237,313)
Attributable to:		
Owners of the Company	**(563,533)**	(237,079)
Non-controlling interests	**(339)**	(234)
	(563,872)	(237,313)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

AT 31 DECEMBER 2018

	Notes	**2018** *HK$'000*	2017 *HK$'000*
Non-current assets			
Property, plant and equipment	17	**94,201**	99,208
Intangible assets	18	**526,196**	1,085,886
Other receivables	22	**–**	85,000
Financial assets at fair value through profit or loss	20	**1,000**	–
Available-for-sale financial assets		**–**	1,000
		621,397	1,271,094
Current assets			
Loan receivables	21	**–**	5,510
Financial assets at fair value through profit or loss	20	**10,010**	29,599
Trade and other receivables	22	**53,040**	3,452
Cash and bank balances	23	**6,374**	34,967
		69,424	73,528
Asset classified as held for sale	24	**–**	4,274
		69,424	77,802
Current liabilities			
Other borrowing, unsecured	25	**11,267**	11,814
Trade and other payables	26	**46,813**	56,387
Bonds	27	**46,665**	23,919
Promissory notes	28	**14,228**	–
Convertible notes – liability portion, unsecured	29	**–**	329,394
Convertible notes – embedded derivatives, unsecured	29	**–**	1,336
Tax payables	14(c)	**5,365**	3,741
		124,338	426,591
Net current liabilities		**(54,914)**	(348,789)
Total assets less current liabilities		**566,483**	922,305

	Notes	2018 HK$'000	2017 HK$'000
Non-current liabilities			
Other payables	26	**16,072**	–
Bonds	27	**4,777**	49,879
Promissory notes	28	**5,012**	–
Convertible notes – liability portion, unsecured	29	**231,831**	–
Convertible notes – embedded derivatives, unsecured	29	**142,598**	–
Deferred tax liabilities	14(d)	**127,743**	270,199
		528,033	320,078
Net assets		**38,450**	602,227
Capital and reserves			
Share capital	30	**2,032,322**	2,032,227
Reserves		**(1,989,338)**	(1,425,805)
Equity attributable to owners of the Company		**42,984**	606,422
Non-controlling interests		**(4,534)**	(4,195)
Total equity		**38,450**	602,227

The consolidated financial statements on pages 63 to 171 were approved and authorised for issue by the board of directors on 28 March 2019 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 2018

	Attributable to the owners of the Company						
	Share capital	**Special capital reserve**	**Exchange reserve**	**Accumulated losses**	**Sub-total**	**Non-controlling interests**	**Total equity**
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
		(note 39(a))	*(note 39(b))*				
At 1 January 2017	1,894,252	579,799	112,741	(1,881,266)	705,526	(3,961)	701,565
Loss for the year	–	–	–	(303,913)	(303,913)	(234)	(304,147)
Other comprehensive income for the year	–	–	66,834	–	66,834	–	66,834
Total comprehensive income (expenses) for the year	–	–	66,834	(303,913)	(237,079)	(234)	(237,313)
Issue of new shares under rights issue, net of share issue expenses	137,972	–	–	–	137,972	–	137,972
Issue of shares upon exercise of warrants	3	–	–	–	3	–	3
At 31 December 2017 and 1 January 2018	2,032,227	579,799	179,575	(2,185,179)	606,422	(4,195)	602,227
Loss for the year	–	–	–	(530,452)	(530,452)	(339)	(530,791)
Other comprehensive expense for the year	–	–	(33,081)	–	(33,081)	–	(33,081)
Total comprehensive expenses for the year	–	–	(33,081)	(530,452)	(563,533)	(339)	(563,872)
Issue of shares upon exercise of warrants	95	–	–	–	95	–	95
At 31 December 2018	2,032,322	579,799	146,494	(2,715,631)	42,984	(4,534)	38,450

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Operating activities			
Loss before tax		**(657,874)**	(403,642)
Adjustments for:			
Interest income	8	**(78)**	(579)
Finance costs	10	**44,132**	53,006
Dividend income	8	**(522)**	(784)
Loss (gain) on fair value change of convertible notes – embedded derivatives	9	**6,546**	(92,938)
Gain on disposal of asset classified as held for sale	24	**(15,241)**	–
Loss (gain) on disposal of financial assets at fair value through profit or loss	9	**1,591**	(1,220)
Net loss on revaluation on financial assets at fair value through profit or loss	9	**15,625**	14,907
Depreciation of property, plant and equipment	17	**10,428**	12,174
Reversal of interest accrued	8	**(532)**	(532)
(Reversal of impairment losses) impairment losses on trade receivables		**(90)**	1,046
Amortisation of production sharing contract	18	**51,228**	64,663
Impairment loss on production sharing contract	18	**454,192**	323,032
Loss on restructuring of convertible notes	9	**6,117**	–
Loss on redemption of convertible notes	9	**–**	5,455
Loss on disposal of property, plant and equipment	9	**150**	–
Loss on property, plant and equipment written off	9	**–**	17
Write-back of other payables	9	**(1,000)**	–
Write off of other receivables	9	**35,000**	–
Operating cash flow before movements in working capital		**(50,328)**	(25,395)
Decrease in financial assets at fair value through profit or loss		**2,373**	26,799
Decrease (increase) in loan receivables		**5,510**	(1,381)
Decrease in trade and other receivables		**443**	3,214
Increase in trade and other payables		**9,726**	4,331
Cash (used in) generated from operations		**(32,276)**	7,568
Income tax paid		**(115)**	(91)
Interest received		**78**	579
Net cash (used in) generated from operating activities		**(32,313)**	8,056

CONSOLIDATED STATEMENT OF CASH FLOWS

FOR THE YEAR ENDED 31 DECEMBER 2018

	Notes	2018 HK$'000	2017 HK$'000
Investing activities			
Increase in restricted bank balances		**(33)**	–
Dividend received		**522**	784
Purchase of property, plant and equipment		**(10,906)**	(19,379)
Proceeds from disposal of property, plant and equipment		**154**	–
Proceeds from disposal of asset classified as held for sale		**19,458**	–
Net cash generated from (used in) investing activities		**9,195**	(18,595)
Financing activities			
Proceeds from issue of new shares under rights issue, net of share issue expenses		**–**	137,972
Proceeds from issue of shares upon exercise of warrants		**95**	3
Proceeds from issue of bonds		**–**	4,450
Proceeds from issue of promissory notes		**18,500**	–
Advance from (repayment for) other borrowing		**68**	(288)
Interest paid		**(10,712)**	(18,892)
Repayment for bonds		**(24,000)**	(87,000)
Payment for redemption of convertible notes		**–**	(119,560)
Net cash used in financing activities		**(16,049)**	(83,315)
Net decrease in cash and cash equivalents		**(39,167)**	(93,854)
Cash and cash equivalents at beginning of year		**34,787**	142,335
Effect of foreign exchange rate changes		**10,541**	(13,694)
Cash and cash equivalents at end of year	23	**6,161**	34,787
Analysis of the balances of cash and cash equivalents:			
Cash and bank balances	23	**6,374**	34,967
Less: Restricted bank balances	23	**(33)**	–
Pledged bank deposits	23	**(180)**	(180)
Cash and cash equivalents at end of year		**6,161**	34,787

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 the 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 19 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 AMENDMENTS TO HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

New and amendments to HKFRSs that are mandatorily effective for the current year

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

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

Impairment losses on financial assets were reclassified from "other gains and losses" in 2017 to conform to current year presentation as a result of consequential changes made to HKAS 1 *Presentation of Financial Statements*. Impairment losses on financial assets that were previously classified as other losses are now presented separately in the consolidated statement of profit or loss.

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

New and amendments to HKFRSs that are mandatorily effective for the current year ***(Continued)***

Except as described below, the application of the above new and 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.

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

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

The Group recognised revenue from the following major sources:

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

The Group has applied HKFRS 15 retrospectively with the cumulative effect of initially applying this standard recognised at the date of initial application, 1 January 2018. Difference at the date of initial application, if any, is recognised in the opening accumulated losses and comparative information has not been restated. Furthermore, in accordance with the transition provisions in HKFRS 15, the Group has elected to apply the standard retrospectively only to contracts that are not completed at 1 January 2018. Accordingly, certain comparative information may not be comparable as comparative information was prepared under HKAS 18 *Revenue* and the related interpretations.

Key changes in accounting policies resulting from application of HKFRS 15

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year ***(Continued)***

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

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

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

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

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

- the customer simultaneously receives and consumes the benefits provided by the Group's performance as the Group performs;
- the Group's performance creates and enhances an asset that the customer controls as the Group performs; or
- the Group's performance does not create an asset with an alternative use to the Group and the Group has an enforceable right to payment for performance completed to date.

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

The revenue from sale of electronic components and coalbed methane products are recognised at a point in time, interest income is accrued on a time basis and dividend income from investments is recognised when the shareholders' rights to receive payment have been established. The application of HKFRS 15 does not have significant impact on the amounts reported in the consolidated financial statements for the year 2017 and 2018.

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year ***(Continued)***

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

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

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

Key changes in accounting policies resulting from application of HKFRS 9

Classification and measurement of financial assets

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

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

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

- the financial asset is held within a business model whose objective is to hold financial assets in order to collect contractual cash flows; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling the financial assets; and

- the contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

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

New and amendments to HKFRSs that are mandatorily effective for the current year ***(Continued)***

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

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

Classification and measurement of financial assets (Continued)

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

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

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

Summary of effects arising from initial application of HKFRS 9

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

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

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

New and amendments to HKFRSs that are mandatorily effective for the current year ***(Continued)***

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

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

Notes:

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

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

(b) Impairment under ECL model

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

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

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

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

New and amendments to HKFRSs issued 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 16	Leases[1]
HKFRS 17	Insurance Contracts[3]
Amendments to HKFRS 3	Definition of a Business[5]
Amendments to HKFRS 9	Prepayment Features with Negative Compensation[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKAS 1 and HKAS 8	Definition of Material[2]
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement[1]
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures[1]
HK (IFRIC) – Int 23	Uncertainty over Income Tax Treatments[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015 – 2017 Cycle[1]

[1] Effective for annual periods beginning on or after 1 January 2019
[2] Effective for annual periods beginning on or after 1 January 2020
[3] Effective for annual periods beginning on or after 1 January 2021
[4] Effective date to be determined
[5] Effective for business combinations and asset acquisitions for which the acquisition date is on or after the beginning of the first annual period beginning on or after 1 January 2020

The directors of the Company do not anticipate that the application of these new and amendments to HKFRSs will have any material impact on the 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 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value-in-use in HKAS 36 *Impairment of Assets*.

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:

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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

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

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

Going concern basis

The Group incurred a net loss attributable to owners of the Company of approximately HK$530,452,000 and a net cash outflow from operating activities of approximately HK$32,313,000 for the year ended 31 December 2018. As at the same date, the Group's current liabilities exceeded its current assets by approximately HK$54,914,000 and its total borrowings amounted to approximately HK$456,378,000 while its cash and cash equivalents amounted to approximately HK$6,161,000, net of restricted bank balances and pledged bank deposits of approximately HK$213,000. As at 31 December 2018, the Group recorded outstanding bonds of approximately HK$46,665,000 and promissory notes of approximately HK$14,228,000 which are due for repayment within the next twelve months. In addition, as at the same date, the Group recorded outstanding bonds of approximately HK$4,777,000 and promissory notes of approximately HK$5,012,000 under non-current liabilities, which are due for repayment in 2020. Moreover, numerous legal claims were filed by its creditors in the PRC to demand repayments of the overdue payables of approximately RMB6,838,000 (equivalent to approximately HK$7,788,000) as explained further in note 35 to the consolidated financial statements.

These conditions indicate the existence of a material uncertainty that might cast significant doubt about the Group's ability to continue as a going concern and therefore the Group may be unable to realise the Group's asset and discharge the Group's liabilities in the normal course of business.

The directors of the Company are satisfied that the Group will have sufficient financial resources to meet its financial obligations as they fall due in the foreseeable future, after taking into consideration of the followings:

(i) The Group and the escrow agent have resolved the disputed matter as disclosed in the announcement of the Company dated 22 March 2019. The other receivable from escrow agent as at 31 December 2018 has been fully settled after the end of the reporting period;

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

Going concern basis (Continued)

(ii) An independent licensed money lending company has granted loan facilities of HK$50,000,000 to the Group and undertaken to provide adequate funds to enable the Group to meet its liabilities and to pay financial obligations to third parties as and when they fall due so that the Group can continue as a going concern and carry on its business without a significant curtailment of operations for the twelve months from the date of approving the consolidated financial statements. Up to the date of approval of these consolidated financial statements, loan facilities have not been utilised under this arrangement;

(iii) The Group has certain promissory notes with aggregate principal amount of HK$13,500,000 which will mature during the year 2019. In March 2019, they were extended to maturity date in year 2020;

(iv) The Group has certain bonds with aggregate principal amount of HK$48,000,000 which will mature during the year 2019. In March 2019, the bonds with an aggregate principal amount of HK$10,000,000 has been extended to 2022;

(v) The Group will seek to obtain additional financing including but not limited to rights issue, open offer, placing of the new shares and issuance of bonds;

(vi) The Group will continue to negotiate with the Group's bondholders/creditors with a view to extend the repayment terms of the Group's current liabilities as they fall due; and

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

Notwithstanding the above, significant uncertainties exist as to whether the Group is able to obtain the necessary funding and achieve the plans and measures above. The Group's ability to continue as a going concern would depend upon (i) whether the Group is able to obtain financing when required, the attainability depends on the performance of the Group; (ii) whether the Group is able to generate sufficient cash flow from operations and plans to control costs, the attainability depends on the market performance.

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

The principal accounting policies are set out below.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Basis of consolidation

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

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

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

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

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

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

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

Non-controlling interests in subsidiaries are presented separately from the Group's equity therein, which represent present ownership interests entitling their holders to a proportionate share of net assets of the relevant subsidiaries upon liquidation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Interests in joint operations

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

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

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

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

The operation under the production sharing contract as referred to in note 18 to the consolidated financial statements is accounted for as a joint operation.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Non-current assets held for sale

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

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

(f) Revenue recognition

Revenue from contracts with customers (upon application of HKFRS 15 in accordance with transitions in note 2(b))

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Revenue recognition *(Continued)*

Revenue recognition (prior to 1 January 2018)

Revenue is measured at the fair value of the consideration received or receivable. Revenue 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.

Goods, interests and dividends

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Leases

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

The Group as lessee

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

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

(h) Foreign currencies

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(i) Borrowing costs

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

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

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

(j) Employee benefits

Retirement benefit costs and termination benefits

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

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

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

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

Short term employee benefits

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Employee benefits *(Continued)*

Equity-settled share-based payments transactions

Share options granted to employees

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

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

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

(k) Exploration and evaluation expenditure

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

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

(l) Taxation

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

Current tax

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit/loss before tax 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation *(Continued)*

Deferred tax

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

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

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

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

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.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Group intends to settle its current tax assets and liabilities on a net basis.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(l) Taxation *(Continued)*

Current and deferred tax for the year

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

(m) Property, plant and equipment

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Intangible assets

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

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

– Production sharing contract	19.9 years

An intangible asset is derecognised on disposal, or when no future economic benefits are expected from use or disposal. Gains and losses arising from derecognition of an intangible asset, measured as the difference between the net disposal proceeds and the carrying amount of the asset, are recognised in profit or loss when the asset is derecognised.

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

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. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

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

(p) Inventories

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

(q) Provisions and contingent liabilities

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Cash and cash equivalents

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

(s) Related parties

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

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

(ii) has significant influence over the Group; or

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

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

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

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

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

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

(vi) the entity is controlled or jointly controlled by a person identified in (a);

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(s) Related parties *(Continued)*

(b) *(Continued)*

(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); or

(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.

(t) Segment reporting

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

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

(u) Financial instruments

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

Financial assets and financial liabilities are initially measured at fair value except for trade receivables arising from contracts with customers which are initially measured in accordance with HKFRS 15 since 1 January 2018. 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

The effective interest method is a method of calculating the amortised cost of a financial asset or financial liability and of allocating interest income and interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts and 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 asset or financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Interest income which is derived from the Group's ordinary course of business is presented as revenue.

Financial assets

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2(b))

Financial assets that meet the following conditions are subsequently measured at amortised cost:

- the financial asset is held within a business model whose objective is to collect contractual cash flows; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

Financial assets that meet the following conditions are subsequently measured at FVTOCI:

- the financial asset is held within a business model whose objective is achieved by both collecting contractual cash flows and selling; and

- the contractual terms give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding.

All other financial assets are subsequently measured at FVTPL, except that at the date of initial application/initial recognition of a financial asset the Group may irrevocably elect to present subsequent changes in fair value of an equity investment in other comprehensive income if that equity investment is neither held for trading nor contingent consideration recognised by an acquirer in a business combination to which HKFRS 3 *Business Combinations* applies.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (upon application of HKFRS 9 in accordance with transitions in note 2(b)) (Continued)

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.

In addition, the Group may irrevocably designate a financial asset that are required to be measured at the amortised cost or FVTOCI as measured at FVTPL if doing so eliminates or significantly reduces an accounting mismatch.

(i) Amortised cost and interest income

Interest income is recognised using the effective interest method for financial assets measured subsequently at amortised cost and debt instruments/receivables subsequently measured at FVTOCI. For financial instruments other than purchased or originated credit-impaired financial assets, interest income is calculated by applying the effective interest rate to the gross carrying amount of a financial asset, except for financial assets that have subsequently become credit-impaired. For financial assets that have subsequently become credit-impaired, interest income is recognised by applying the effective interest rate to the amortised cost of the financial asset from the next reporting period. If the credit risk on the credit-impaired financial instrument improves so that the financial asset is no longer credit-impaired, interest income is recognised by applying the effective interest rate to the gross carrying amount of the financial asset from the beginning of the reporting period following the determination that the asset is no longer credit impaired.

(ii) Financial assets at FVTPL

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

Financial assets at FVTPL are measured at fair value at the end of each reporting period, with any fair value gains or losses recognised in profit or loss. The net gain or loss recognised in profit or loss excludes any dividend or interest earned on the financial asset and is included in the “other gains and losses” line item.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b))

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

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

The Group always recognises lifetime ECL for trade and other receivables. The ECL on these assets are assessed individually for debtors with significant balances.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (Continued)

(i) Significant increase in credit risk

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (Continued)

(i) Significant increase in credit risk (Continued)

Irrespective of the outcome of the above assessment, the Group presumes that the credit risk has increased significantly since initial recognition when contractual payments are more than 30 days past due, unless the Group has reasonable and supportable information that demonstrates otherwise.

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

The Group regularly monitors the effectiveness of the criteria used to identify whether there has been a significant increase in credit risk and revises them as appropriate to ensure that the criteria are capable of identifying significant increase in credit risk before the amount becomes past due.

(ii) Definition of default

The Group considers that default has occurred when a financial asset is more than 30 days past due unless the Group has reasonable and supportable information to demonstrate that a more lagging default criterion is more appropriate.

(iii) Credit-impaired financial assets

A financial asset is credit-impaired when one or more events of default that have a detrimental impact on the estimated future cash flows of that financial asset have occurred. Evidence that a financial asset is credit-impaired includes observable data about the following events:

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (Continued)

(iii) Credit-impaired financial assets (Continued)

(a) significant financial difficulty of the issuer or the borrower;

(b) a breach of contract, such as a default or past due event;

(c) the lender(s) of the borrower, for economic or contractual reasons relating to the borrower's financial difficulty, having granted to the borrower a concession(s) that the lender(s) would not otherwise consider;

(d) it is becoming probable that the borrower will enter bankruptcy or other financial reorganisation; or

(e) the disappearance of an active market for that financial asset because of financial difficulties.

(iv) Write-off policy

The Group writes off a financial asset when there is information indicating that the counterparty is in severe financial difficulty and there is no realistic prospect of recovery, for example, when the counterparty has been placed under liquidation or has entered into bankruptcy proceedings, or in the case of trade receivables, when the amounts are over two years past due, whichever occurs sooner. Financial assets written off may still be subject to enforcement activities under the Group's recovery procedures, taking into account legal advice where appropriate. A write-off constitutes a derecognition event. Any subsequent recoveries are recognised in profit or loss.

(v) Measurement and recognition of ECL

The measurement of ECL is a function of the probability of default, loss given default (i.e. the magnitude of the loss if there is a default) and the exposure at default. The assessment of the probability of default and loss given default is based on historical data adjusted by forward-looking information. Estimation of ECL reflects an unbiased and probability-weighted amount that is determined with the respective risks of default occurring as the weights.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (upon application HKFRS 9 with transitions in accordance with note 2(b)) (Continued)

(v) Measurement and recognition of ECL (Continued)

Where ECL is measured on a collective basis or cater for cases where evidence at the individual instrument level may not yet be available, the financial instruments are grouped on the following basis:

- Nature of financial instruments;
- Past-due status;
- Nature, size and industry of debtors; and
- External credit ratings where available.

The grouping is regularly reviewed by management to ensure the constituents of each group continue to share similar credit risk characteristics.

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

Except for investments in debt instruments/receivables that are measured at FVTOCI, the Group recognises on impairment gain or loss in profit or loss for all financial instruments by adjusting their carrying amount with the exception of trade receivables where the corresponding adjustment is recognised through a loss allowance account.

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018)

Financial assets are classified into the following specified categories: financial assets at FVTPL, 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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(i) Financial assets at FVTPL

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

A financial asset is classified as held for trading if:

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Classification and subsequent measurement of financial assets (before application of HKFRS 9 on 1 January 2018) (Continued)

(ii) AFS financial assets

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

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

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

(iii) 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.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018)

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 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Impairment of financial assets (before application of HKFRS 9 on 1 January 2018) (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.

Derecognition of financial assets

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.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial assets (Continued)

Derecognition of Financial assets (Continued)

On derecognition of a financial asset measured at amortised cost, the difference between the asset's carrying amount and the sum of the consideration received and receivable is recognised in profit or loss.

On derecognition of an investment in a debt instrument classified as at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the FVTOCI reserve is reclassified to profit or loss.

On derecognition of an investment in equity instrument which the Group has elected on initial recognition to measure at FVTOCI upon application of HKFRS 9, the cumulative gain or loss previously accumulated in the investments revaluation reserve is not reclassified to profit or loss, but is transferred to accumulated losses.

On derecognition of an AFS financial asset, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss.

Financial liabilities and equity

Classification as debt or equity

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

Equity instruments

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

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

Financial liabilities

All financial liabilities are subsequently measured at amortised cost using the effective interest method or at FVTPL.

Financial liabilities at amortised cost

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities (Continued)

Classification and measurement of financial liabilities

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

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

Warrants

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

Convertible notes containing debt and derivative components

A conversion option that will be settled 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 component are charged to profit or loss immediately. Transaction costs relating to the debt component are included in the carrying amount of the debt portion and amortised over the period of the convertible notes using the effective interest method.

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

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities (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 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 (under HKFRS 9 since 1 January 2018)

Derivatives embedded in hybrid contracts that contain financial asset hosts within the scope of HKFRS 9 are not separated. The entire hybrid contract is classified and subsequently measured in its entirety as either amortised cost or fair value as appropriate.

Derivatives embedded in non-derivative host contracts that are not financial assets within the scope of HKFRS 9 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.

Embedded derivatives (before application of HKFRS 9 on 1 January 2018)

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/non-substantial modification of financial liabilities

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.

The Group accounts for an exchange with a lender of a financial liability with substantially different terms as an extinguishment of the original financial liability and the recognition of a new financial liability. A substantial modification of the terms of an existing financial liability or a part of it (whether or not attributable to the financial difficulty of the Group) is accounted for as an extinguishment of the original financial liability and the recognition of a new financial liability.

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Financial instruments *(Continued)*

Financial liabilities and equity (Continued)

Financial liabilities (Continued)

Derecognition/non-substantial modification of financial liabilities (Continued)

The Group considers that the terms are substantially different if the discounted present value of the cash flows under the new terms, including any fees paid net of any fees received and discounted using the original effective interest rate, is at least 10 per cent different from the discounted present value of the remaining cash flows of the original financial liability. Accordingly, such exchange of debt instruments or modification of terms is accounted for as an extinguishment, any costs or fees incurred are recognised as part of the gain or loss on the extinguishment. The exchange or modification is considered as non-substantial modification when such difference is less than 10 per cent.

4. CRITICAL ACCOUNTING JUDGEMENTS AND KEY SOURCES OF ESTIMATION UNCERTAINTY

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

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

Key sources of estimation uncertainty

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

(a) Impairment of property, plant and equipment

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

The estimated recoverable amounts of construction in progress (note 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 cost approach and market approach valuation methodology, which involves the cash-generating units that have been determined based on value-in-use calculations.

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

Key sources of estimation uncertainty *(Continued)*

(b) Impairment of loan receivables

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

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

(c) Provision for ECL for trade receivables (applicable from 1 January 2018)

The Group uses a provision of matrix to calculate ECLs for trade receivables. The provision matrix is based on management's estimate of the lifetime ECL to be incurred, which is estimated by taking into account the credit loss experience, ageing of overdue trade receivables, customers' repayment history and customers' financial position and an assessment of both the current and forecast general economic conditions, all of which involve a significant degree of management judgement. The Group regularly monitors and reviews assumptions related to the calculation of ECL. The above estimation techniques and key assumptions have not changed significantly in 2018.

The provision of ECLs is sensitive to changes in circumstances and of forecast general economic conditions. If the financial condition of the customers or the forecast economic conditions were to deteriorate, actual loss allowance would be higher than estimated.

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

Key sources of estimation uncertainty *(Continued)*

(d) 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 19.9 years to 31 March 2038. Management determines the estimated useful lives and basis for amortisation for the PSC taking into account factors including but not limited to, contractual terms of respective contracts, the expected usage of the assets by the Group based on past experience, technical obsolescence arising from changes or improvements in production or from a change in the market demand for the product or service of the assets. The estimation of the useful life and the basis for amortisation is a matter of judgement based on the experience of the Group. Management reviews the estimated useful life and the basis for amortisation of intangible asset annually, and if expectations are significantly different from previous estimates of useful economic life, the basis and rates of amortisation for future periods will be adjusted accordingly.

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

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

Reserves are estimates of the amount of CBM that can be economically and legally extracted from the designated contract areas under the PSC (note 18). In order to make an estimate for the reserves, estimates and assumptions are required about a range of geological, technical and economic factors, including quantities, grades, production techniques, recovery rates, production costs, transportation costs, commodity demand and commodity prices.

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

The Group estimates its commercial reserves and resources based on information compiled by appropriately qualified persons relating to the geological and technical data on the size, depth, shape and grade of the hydrocarbon body and suitable production techniques and recovery rates. Commercial reserves are determined using estimates of CBM in place, recovery factors and future commodity prices, the latter having an impact on the total amount of recoverable reserves and the proportion of the gross reserves under the terms of the PSC. Future development costs are estimated using assumptions as to the number of wells required to produce the commercial reserves, the cost of such wells and associated production facilities, and other capital costs. The carrying amount of intangible assets relating to the PSC at 31 December 2018 is shown in note 18 to the consolidated financial statements.

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

Key sources of estimation uncertainty *(Continued)*

(e) 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.

(f) Impairment of intangible asset – PSC

The estimated recoverable amount of the PSC (note 18) at the end of the reporting period has been arrived at on the basis of an independent professional valuation carried out by an independent firm of professional qualified valuers using income approach valuation methodology, which involves the value-in-use calculations with reference to the technical assessment reports issued by Netherland, Sewell & Associates, Inc. and the latest internal reserve assessment. Neither the valuer nor technical adviser is connected with the Group, while both with appropriate qualifications and relevant experience in the industry. The Group has used estimated future cash flows and profit forecasts expected to be generated from the PSC as a cash-generating unit and a risk-adjusted discount rate in order to calculate the present value. The Group's CBM business under the PSC is currently at its early stage of development. The cash flow and profit forecast projections involve significant judgement and estimates on the accuracy of the assumptions for the projections and estimates of, including but not limited to, government policies, growth rate, the extent of the future market competition, market demand, and cost structure of CBM products that the Group will achieve during the forecast period.

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

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

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

(g) 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 judgements in applying the Group's accounting policies

(a) 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.

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

The fair value of the embedded derivatives portion of the convertible notes that are not traded in active market is determined by using valuation techniques. The Group estimates the fair value of the embedded derivatives portion of the convertible notes based on an independent professional valuation using the binomial lattice model which requires various sources of information and assumptions. The carrying amount of the embedded derivatives portion of the convertible notes as at 31 December 2018 was HK$142,598,000 (2017: HK$1,336,000). Further details are disclosed in note 29 to the consolidated financial statements.

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

Critical accounting judgements in applying the Group's accounting policies *(Continued)*

(c) Going concern consideration

The directors of the Company have prepared the consolidated financial statements on the assumption that the Group will be able to operate as a going concern in the foreseeable future, which is a critical judgement that has the most significant effect on the amounts recognised in the consolidated financial statements. The assessment of the going concern assumption involves making a judgement by the directors, about the future outcome of events or conditions which are inherently uncertain. The directors consider that, after taking into account of all major events or conditions, which may give rise to business risks, that individually or collectively may cast significant doubt upon the going concern assumption as set out in note 3 to the consolidated financial statements, the Group has the capability to continue as a going concern.

5. CAPITAL RISK MANAGEMENT

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

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

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

5. CAPITAL RISK MANAGEMENT *(Continued)*

The gearing ratio at 31 December 2018 and 2017 was as follows:

	2018	2017
	HK$'000	*HK$'000*
Convertible notes	**374,429**	330,730
Bonds	**51,442**	73,798
Promissory notes	**19,240**	–
Other borrowing	**11,267**	11,814
Less: Cash and bank balances	**(6,374)**	(34,967)
Total net debt	**450,004**	381,375
Total equity	**38,450**	602,227
Total capital	**488,454**	983,602
Gearing ratio	**92.13%**	38.77%

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

6. FINANCIAL INSTRUMENTS

(1) Categories of financial instruments

	2018	2017
	HK$'000	*HK$'000*
Financial assets		
Available-for-sale financial assets	**–**	1,000
Financial assets at amortised cost	**58,698**	–
Financial assets at fair value through profit or loss	**11,010**	29,599
Loan and other receivables (including cash and bank balances)	**–**	128,378
	69,708	158,977
Financial liabilities		
Bonds	**51,442**	73,798
Convertible notes-liability portion, unsecured	**231,831**	329,394
Convertible notes-embedded derivatives, unsecured	**142,598**	1,336
Promissory notes	**19,240**	–
Other financial liabilities	**63,851**	57,697
	508,962	462,225

(2) Financial risk management objectives and policies

The Group's major financial instruments include 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, promissory notes, trade payables, other payables and amounts due to non-controlling interests of a subsidiary. Details of the financial instruments are disclosed in respective notes. The risks associated with these financial instruments include market risk (including foreign currency risk, other price risk and interest rate risk), credit risk and liquidity risk.

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

(a) Foreign currency risk

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

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

(b) Other price risk

The Group is exposed to equity price risk from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of financial derivatives of the Group. As at the end of the reporting period, the Group is exposed to this risk through the conversion rights attached to the convertible notes issued by the Company as disclosed in note 29 to the consolidated financial statements.

In addition, the Group is exposed to equity price risk through its investments in listed equity securities (note 20). The management manages this exposure by maintaining a portfolio of investments with different risks and return profiles. The Group's equity price risk is mainly concentrated on equity instruments operating in securities and brokerage industry sectors quoted in the Stock Exchange.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

(b) Other price risk (Continued)

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

Sensitivity analysis

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

If the prices of the respective equity instruments had been 10% higher/lower (2017: 10% higher/lower):

- post-tax loss for the year ended 31 December 2018 would decrease/increase by approximately HK$1,001,000 (2017: decrease/increase by approximately HK$2,960,000) 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 2018 and 2017.

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 2018 and 2017, 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$64,000 (2017: HK$349,000).

6. FINANCIAL INSTRUMENTS *(Continued)*

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

(d) Credit risk and impairment assessment

As at 31 December 2018, the Group's maximum exposure to credit risk which will cause a financial loss to the Group due to failure to discharge an obligation by the counterparties is arising from the carrying amount of each class of recognised financial assets as stated in the consolidated statement of financial position.

In order to minimise credit risk, management of the Group has delegated a team to compile credit and risk management policies, to approve credit limits and to determine any debt recovery action on those delinquent receivables. In addition, the Group reviews the recoverable amount of each individual receivable at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, the directors of the Company consider that the Group's credit risk is significantly reduced. In addition, the Group performs impairment assessment under ECL model upon application of HKFRS 9 based on provision matrix or credit impaired. Details of the accounting policy for impairment of trade receivables has been disclosed in note 3 to the consolidated financial statements.

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

The Group considers the credit risk characteristics and the days past due to measure ECL. For the year ended 31 December 2018, the expected credit losses rate for customers of sales of goods is minimal, given there is no history of significant defaults from customers and insignificant impact from forward-looking estimates. The assessed ECL for trade receivables are not material.

In the prior year, the impairment of trade receivables was assessed based on the incurred loss model. Individual receivables which were known to be uncollectible were written off by reducing the carrying amount directly. The other receivables were assessed collectively to determine whether there was objective evidence that an impairment had been incurred but not yet been identified. For these receivables, the estimated impairment losses were recognised in a separate provision for impairment. The Group considered that there was evidence of impairment if any of the following indicators were present:

- significant financial difficulties of the debtor;
- probability that the debtor will enter bankruptcy or financial reorganisation; and
- default or late payments.

6. FINANCIAL INSTRUMENTS *(Continued)*

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

(d) Credit risk and impairment assessment (Continued)

Receivables for which an impairment provision was recognised were written off against the provision when there was no expectation of recovering additional cash.

In respect of loan receivables arising from the Group's money lending business, all of the loan receivables were secured by pledged properties or vehicles. The directors of the Company closely monitor the risk exposure of customers and collateral and would take appropriate action to ensure the risk exposure is acceptable.

For other financial assets at amortised cost, including deposits and other receivables, management considers that its credit risk has not increased significantly since initial recognition with reference to the counterparty historical default rate and current financial position.

Impairment losses on other financial assets at amortised cost are presented as impairment losses, net of reversal within operating profit. Subsequent recoveries of amounts previously written off are credited against the same line item.

The Group has no significant concentration of credit risk by any single debtor.

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

(e) Liquidity risk

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

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

(e) Liquidity risk (Continued)

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

	2018						2017					
	Carrying amount	Weighted average interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Carrying amount	Weighted average interest rate	Total contractual undiscounted cash flow	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years
	HK$'000	*%*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*%*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Other borrowings	11,267	–	11,267	11,267	–	–	11,814	–	11,814	11,814	–	–
Trade and other payables	52,584	–	52,584	36,512	16,072	–	45,883	–	45,883	45,883	–	–
Bonds	51,442	6.3%	55,780	50,749	5,031	–	73,798	6.1%	83,193	27,413	50,749	5,031
Promissory notes	19,240	8.0%	20,484	14,874	5,610	–	–	–	–	–	–	–
Convertible notes (including embedded derivatives)	374,429	2.0%	386,900	7,300	7,300	372,300	330,730	2.0%	372,300	372,300	–	–
	508,962		527,015	120,702	34,013	372,300	462,225		513,190	457,410	50,749	5,031

(f) Oil and gas price risk

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

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

6. FINANCIAL INSTRUMENTS *(Continued)*

(3) Fair value measurement

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

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

	Level 1	**Level 2**	**Level 3**
	HK$'000	***HK$'000***	***HK$'000***
2018			
Financial assets			
– Financial assets at fair value through profit or loss *(note 20)*	**10,010**	**–**	**1,000**
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 29)*	**–**	**–**	**142,598**

	Level 1	Level 2	Level 3
	HK$'000	*HK$'000*	*HK$'000*
2017			
Financial assets			
– Financial assets at fair value through profit or loss *(note 20)*	29,599	–	–
– Available-for-sale financial assets	–	–	1,000
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 29)*	–	–	1,336

During the years ended 31 December 2018 and 2017, there were no transfers between instruments in Level 1 and Level 2, or transfers into or out of Level 3. The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

6. FINANCIAL INSTRUMENTS *(Continued)*

(3) Fair value measurement *(Continued)*

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

Information about Level 1 fair value measurements

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

Information about Level 3 fair value measurements

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is credit spread. The fair value measurement is positively correlated to the credit spread. As at 31 December 2018, the credit spread used in the valuation is 19.20%, 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 approximately HK$9,929,000/HK$10,574,000 (2017: increase/decrease the Group's loss by approximately HK$134,000/HK$134,000).

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 29 to the consolidated financial statements. Fair value loss/gain on conversion option embedded in convertible notes is charged/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 loss of approximately HK$6,546,000 (2017: fair value gain of approximately HK$92,938,000) was related to conversion option embedded in convertible notes for the reporting period. The fair value of the financial assets at fair value through profit or loss (note 20) 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 at fair value on a recurring basis

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

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

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

7. REVENUE AND SEGMENT REPORTING

(a) Revenue

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

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

	2018	2017
	HK$'000	*HK$'000*
Sale of electronic components	**8,550**	14,581
Sale of coalbed methane products	**513**	1,418
Interest income from money lending	**46**	670
	9,109	16,669

(b) Segment information

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

– Electronic components

– Coalbed methane

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

7. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results, assets and liabilities

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

Segment assets include all tangible, intangible assets and current assets with the exception of 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 2018 and 2017 is set out below:

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

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

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

Year ended 31 December 2018

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Recognised at a point in time	8,550	513	–	9,063
Recognised over time	–	–	46	46
Reportable segment revenue from external customers	8,550	513	46	9,109
Inter-segment revenue	–	–	–	–
Reportable segment revenue	8,550	513	46	9,109
Reportable segment results	(1,440)	(574,086)	(55,459)	(630,985)
Amortisation of production sharing contract	–	51,228	–	51,228
Depreciation	–	10,197	16	10,213
Loss on disposal of financial assets at fair value through profit or loss	–	–	1,591	1,591
Loss on fair value change of convertible notes – embedded derivatives	–	6,546	–	6,546
Loss on restructuring of convertible notes	–	6,117	–	6,117
Impairment loss on production sharing contract	–	454,192	–	454,192
Interest expenses	–	38,336	–	38,336
Net loss on revaluation of financial assets at fair value through profit or loss	–	–	15,625	15,625
Other income	–	(535)	(522)	(1,057)
Reversal of impairment losses on trade receivables	(90)	–	–	(90)
Write off of other receivables	–	–	35,000	35,000
Reportable segment assets	919	620,901	64,076	685,896
Additions to non-current segment assets during the year	–	10,906	–	10,906
Reportable segment liabilities	21,434	418,652	3,858	443,944

7. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

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

Year ended 31 December 2017

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Recognised at a point in time	14,581	1,418	–	15,999
Recognised over time	–	–	670	670
Reportable segment revenue from external customers	14,581	1,418	670	16,669
Inter-segment revenue	–	–	–	–
Reportable segment revenue	14,581	1,418	670	16,669
Reportable segment results	(2,053)	(351,802)	(14,412)	(368,267)
Amortisation of production sharing contract	–	64,663	–	64,663
Depreciation	21	11,645	37	11,703
Gain on disposal of financial assets at fair value through profit or loss	–	–	(1,220)	(1,220)
Gain on fair value change of convertible notes – embedded derivatives	–	(92,938)	–	(92,938)
Loss on redemption of convertible notes	–	5,455	–	5,455
Impairment loss on production sharing contract	–	323,032	–	323,032
Impairment losses on trade receivables	1,046	–	–	1,046
Interest expenses	–	37,875	–	37,875
Net loss on revaluation of financial assets at fair value through profit or loss	–	–	14,907	14,907
Other income	(7)	(540)	(896)	(1,443)
Reportable segment assets	2,047	1,189,098	123,924	1,315,069
Additions to non-current segment assets during the year	–	17,741	–	17,741
Reportable segment liabilities	21,112	366,408	3,851	391,371

7. REVENUE AND SEGMENT REPORTING *(Continued)*

(b) Segment information *(Continued)*

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

	2018	2017
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue	**9,109**	16,669
Elimination of inter-segment revenue	**–**	–
Consolidated revenue	**9,109**	16,669
Profit or loss		
Reportable segment results	**(630,985)**	(368,267)
Other income	**233**	494
Other gains and losses	**5,153**	2,084
Unallocated head office and corporate expenses	**(32,275)**	(37,953)
Consolidated loss before tax	**(657,874)**	(403,642)
Assets		
Reportable segment assets	**685,896**	1,315,069
Unallocated head office and corporate assets	**4,925**	33,827
Consolidated total assets	**690,821**	1,348,896
Liabilities		
Reportable segment liabilities	**443,944**	391,371
Tax payables	**5,365**	3,741
Deferred tax liabilities	**127,743**	270,199
Unallocated head office and corporate liabilities	**75,319**	81,358
Consolidated total liabilities	**652,371**	746,669

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, other receivables, financial assets at fair value through profit and loss and available-for-sale financial assets, are based on the geographical location of assets.

	Hong Kong	**PRC**	**Total**
	HK$'000	***HK$'000***	***HK$'000***
2018			
Revenue	**8,596**	**513**	**9,109**
Specified non-current assets	**1,590**	**619,807**	**621,397**
2017			
Revenue	15,251	1,418	16,669
Specified non-current assets	86,555	1,184,539	1,271,094

(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:

	2018	2017
	HK$'000	*HK$'000*
Customer A	**4,837**	7,122
Customer B*	**N/A**	3,637
Customer C	**2,645**	2,690

* Customer B contributed no revenue for the year ended 31 December 2018.

8. OTHER INCOME

	2018	2017
	HK$'000	*HK$'000*
Bank interest income	**78**	579
Dividend income	**522**	784
Reversal of interest accrued *(note)*	**532**	532
Sundry income	**158**	42
	1,290	1,937

Note:

As disclosed in notes 18 and 25 to the consolidated financial statements, the independent third party agreed to waive all accrued interest of approximately HK$6,834,000 (equivalent to RMB6,008,000) due by Canada Can-Elite Energy Limited ("Can-Elite"), a wholly-owned subsidiary of the Company, and China United Coalbed Methane Corporation Limited ("China United") as at 31 December 2008, of which Can-Elite shared approximately HK$4,784,000 (equivalent to RMB4,206,000) based on the PSC. The accrued interest waived is amortised over the contractual period of 9 years during which a discount on sale of CBM products is given to that independent third party.

9. OTHER GAINS AND LOSSES

	2018	2017
	HK$'000	*HK$'000*
Gain on disposal of asset classified as held for sale	**15,241**	–
(Loss) gain on disposal of financial assets at fair value through profit or loss	**(1,591)**	1,220
(Loss) gain on fair value change of convertible notes – embedded derivatives	**(6,546)**	92,938
Loss on disposal of property, plant and equipment	**(150)**	–
Loss on property, plant and equipment written off	**–**	(17)
Loss on redemption of convertible notes	**–**	(5,455)
Loss on restructuring of convertible notes	**(6,117)**	–
Net foreign exchange (loss) gain	**(11,082)**	14,040
Net loss on revaluation of financial assets at fair value through profit or loss	**(15,625)**	(14,907)
Write-back of other payables	**1,000**	–
(Write-down) reversal of write-down of inventories	**(6)**	2
Write off of other receivables *(note 22(c))*	**(35,000)**	–
	(59,876)	87,821

10. FINANCE COSTS

	2018	2017
	HK$'000	*HK$'000*
Imputed interest on convertible notes	**38,336**	37,875
Imputed interest on bonds	**5,056**	15,131
Interest on promissory notes	**740**	–
	44,132	53,006

11. LOSS BEFORE TAX

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

		2018	2017
		HK$'000	*HK$'000*
(a)	Staff costs (including directors' emoluments)		
	Salaries, wages and other benefits	**21,622**	23,935
	Contributions to defined contribution retirement plans	**1,819**	2,092
	Total staff costs	**23,441**	26,027
(b)	Other items		
	Amortisation of production sharing contract	**51,228**	64,663
	Auditor's remuneration		
	– Audit services	**630**	600
	– Non-audit services	**130**	271
	Cost of inventories recognised as expenses	**8,181**	14,611
	Depreciation of property, plant and equipment	**10,428**	12,174
	Gain on disposal of asset classified as held for sale	**(15,241)**	–
	Impairment loss on production sharing contract	**454,192**	323,032
	Loss on disposal of property, plant and equipment	**150**	–
	Loss on property, plant and equipment written off	**–**	17
	Operating lease charges in respect of land and buildings	**2,748**	2,257
	(Reversal of impairment losses) impairment losses on trade receivables	**(90)**	1,046
	Write-back of other payables	**(1,000)**	–
	Write-down (reversal of write-down) of inventories	**6**	(2)

12. DIRECTORS' AND CHIEF EXECUTIVE'S EMOLUMENTS

(a) Directors' and chief executive's emoluments

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

2018

	Fees	Salaries, allowances and benefits in kind	Discretionary bonuses	Retirement scheme contributions	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Chief executive					
Lyu Guoping	–	1,688	60	18	1,766
Executive directors					
Cheng Wai Keung	–	276	18	14	308
Tam Tak Wah	–	672	32	18	722
Tsang Ching Man	–	932	48	18	998
Independent non-executive directors					
Albert Saychuan Cheok *(Chairman)*	480	–	–	–	480
Chan Tsz Kit	100	–	–	–	100
Chan Yim Por Bonnie	100	–	–	–	100
Wang Li	100	–	–	–	100
	780	3,568	158	68	4,574

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

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

2017

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

Notes:

(i) None of the directors or chief executive waived any emoluments during the years ended 31 December 2018 and 2017.

(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 2018 and 2017.

(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 2018 and 2017.

(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 2018 and 2017.

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 (2017: Nil).

(c) Directors' termination benefits

None of the directors received or will receive any termination benefits during the year (2017: Nil).

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

During the year ended 31 December 2018, the Company did not pay consideration to any third parties for making available directors' services (2017: 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 2018, there are no loan, quasi-loan and other dealing arrangement in favour of the directors, or controlled body corporates and connected entities of such directors (2017: 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 (2017: Nil).

13. INDIVIDUALS WITH HIGHEST EMOLUMENTS

The five highest paid employees of the Group during the year included one director and the chief executive (2017: one director and the chief executive), details of whose emoluments are set out in note 12 above. The emoluments of the remaining three (2017: three) individuals are as follows:

	2018	2017
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**2,949**	4,387
Discretionary bonuses	**66**	137
Retirement scheme contributions	**54**	54
	3,069	4,578

	Number of individuals	
	2018	2017
Emoluments bands		
Nil to HK$1,000,000	**2**	1
HK$1,000,001 to HK$1,500,000	**1**	1
HK$1,500,001 to HK$2,000,000	**–**	–
HK$2,000,001 to HK$2,500,000	**–**	1
	3	3

There was no arrangement under which any of these individuals waived or agreed to waive any remuneration during the years ended 31 December 2018 and 2017.

14. INCOME TAX

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

	2018	2017
	HK$'000	*HK$'000*
Current tax		
PRC Enterprise Income Tax	**1,806**	101
Hong Kong Profits Tax	**–**	49
	1,806	150
Deferred tax		
Current year *(note 14(d))*	**(128,889)**	(99,645)
Income tax credit	**(127,083)**	(99,495)

(i) On 21 March 2018, the Hong Kong Legislative Council passed The Inland Revenue (Amendment) (No. 7) Bill 2017 (the "Bill") which introduces the two-tiered profits tax rates regime. The Bill was signed into law on 28 March 2018 and was gazetted on the following day. Under the two-tiered profits tax rates regime, the first HK$2 million of profits of the qualifying group entity will be taxed at 8.25%, and profits above HK$2 million will be taxed at 16.5%. The profits of group entities not qualifying for the two-tiered profits tax rates regime will continue to be taxed at a flat rate of 16.5%. The directors of the Company considered the amount involved upon implementation of the two-tiered profits tax rates regime is insignificant to the consolidated financial statements. Thus, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both years.

(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% (2017: 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 2018 and 2017.

(iii) The subsidiaries in the PRC are subject to PRC Enterprise Income Tax rate of 25% (2017: 25%).

14. INCOME TAX *(Continued)*

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

(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.

(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:

	2018	2017
	HK$'000	***HK$'000***
Loss before tax	**(657,874)**	(403,642)
Notional tax on loss before tax, calculated at the rates applicable in the jurisdictions concerned	**(152,084)**	(117,344)
Tax effect of income not taxable for tax purpose	**(501)**	(17,083)
Tax effect of expenses not deductible for tax purpose	**24,081**	31,600
Tax effect of deductible temporary differences not recognised	**(2,532)**	(271)
Tax effect of tax losses not recognised	**5,264**	3,603
Utilisation of tax losses previously not recognised	**(1,311)**	–
Income tax credit	**(127,083)**	(99,495)

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

	2018	2017
	HK$'000	*HK$'000*
PRC Enterprise Income Tax	**4,275**	2,651
Hong Kong Profits Tax	**1,090**	1,090
	5,365	3,741

14. INCOME TAX *(Continued)*

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

	Fair value adjustments of financial assets at fair value through profit or loss	Fair value adjustments on PSC arising from the business combination *(note 18)*	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2017	1,450	343,207	344,657
Credit to consolidated statement of profit or loss *(note 14(a))*	(2,721)	(96,924)	(99,645)
Exchange adjustment	–	25,187	25,187
At 31 December 2017 and 1 January 2018	(1,271)	271,470	270,199
Credit to consolidated statement of profit or loss *(note 14(a))*	(2,534)	(126,355)	(128,889)
Exchange adjustment	–	(13,567)	(13,567)
At 31 December 2018	(3,805)	131,548	127,743

(e) Deferred tax assets not recognised

Deferred tax assets of the Group amounting to HK$15,638,000 (2017: HK$16,372,000), arising from unused tax losses have not been recognised in the consolidated financial statements due to the uncertainty as to their future utilisation. The unused tax losses have no expiry date.

15. DIVIDEND

No dividend was paid or proposed during 2018, nor has any dividend been proposed since the end of reporting period (2017: Nil).

16. LOSS PER SHARE

(a) Basic loss per share

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

	2018	2017
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share		
Loss for the year attributable to owners of the Company	**(530,452)**	(303,913)

	2018	2017
		(Restated)
Weighted average number of ordinary shares at 31 December	**479,148,706**	442,191,288

The weighted average number of ordinary shares for the purpose of calculating basic and diluted loss per share for last year has been adjusted for the effect of share consolidation on 26 July 2018.

(b) Diluted loss per share

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

17. PROPERTY, PLANT AND EQUIPMENT

	Land and buildings	Construction in progress	Plant and equipment	Furniture and fixtures	Motor vehicles	Leasehold improvements	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Cost							
At 1 January 2017	6,015	11,961	108,971	2,213	3,970	828	133,958
Exchange adjustment	453	1,609	8,244	62	140	–	10,508
Additions	–	18,186	648	118	427	–	19,379
Transfer	–	(1,206)	1,206	–	–	–	–
Transfer to asset classified as held for sale *(note 24)*	(6,468)	–	–	–	–	–	(6,468)
Written off	–	–	–	(123)	–	–	(123)
At 31 December 2017 and 1 January 2018	–	30,550	119,069	2,270	4,537	828	157,254
Exchange adjustment	–	(1,957)	(6,151)	(45)	(205)	–	(8,358)
Additions	–	9,848	118	153	787	–	10,906
Transfer	–	(281)	281	–	–	–	–
Disposals	–	–	–	–	(575)	–	(575)
At 31 December 2018	–	38,160	113,317	2,378	4,544	828	159,227
Accumulated depreciation							
At 1 January 2017	1,855	–	37,658	2,046	2,269	815	44,643
Exchange adjustment	147	–	3,282	46	54	–	3,529
Charge for the year	192	–	11,400	139	430	13	12,174
Transfer to asset classified as held for sale *(note 24)*	(2,194)	–	–	–	–	–	(2,194)
Written off	–	–	–	(106)	–	–	(106)
At 31 December 2017 and 1 January 2018	–	–	52,340	2,125	2,753	828	58,046
Exchange adjustment	–	–	(3,078)	(37)	(62)	–	(3,177)
Charge for the year	–	–	9,919	139	370	–	10,428
Disposals	–	–	–	–	(271)	–	(271)
At 31 December 2018	–	–	59,181	2,227	2,790	828	65,026
Carrying amounts							
At 31 December 2018	–	38,160	54,136	151	1,754	–	94,201
At 31 December 2017	–	30,550	66,729	145	1,784	–	99,208

None of property, plant and equipment was pledged as security for borrowings of the Group as at 31 December 2018 and 2017.

18. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2017	3,686,204
Exchange adjustment	277,760
At 31 December 2017 and 1 January 2018	3,963,964
Exchange adjustment	(205,422)
At 31 December 2018	3,758,542
Accumulated amortisation and impairment	
At 1 January 2017	2,313,372
Charge for the year	64,663
Impairment loss	323,032
Exchange adjustment	177,011
At 31 December 2017 and 1 January 2018	2,878,078
Charge for the year	51,228
Impairment loss	454,192
Exchange adjustment	(151,152)
At 31 December 2018	3,232,346
Carrying amount	
At 31 December 2018	526,196
At 31 December 2017	1,085,886

18. INTANGIBLE ASSETS *(Continued)*

Notes:

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

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

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

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

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

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

18. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

The PSC provides a term of thirty consecutive years commencing 1 April 2008, with a production period of 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 costs incurred during the development and production periods in the proportion of 70% and 30% respectively, or in proportion to their participating interests of each coalbed methane field. Upon extraction of the coalbed methane and liquid hydrocarbons, the coalbed methane and liquid hydrocarbons products shall be sold by China United and the proceeds will be deposited into a joint bank account opened by Can-Elite and China United, and the profits be distributed between the parties in the proportion of their participating interests in the development costs, or any other marketing approaches and procedures to be agreed upon between Can-Elite and China United.

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

The PSC is amortised on a straight-line basis over the remaining contract terms of 19.9 years (2017: 20.9 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.

18. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(a) *(Continued)*

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:

		2018	2017
		HK$'000	*HK$'000*
(i)	**Results for the year**		
	Revenue	**513**	1,418
	Administrative expenses	**(17,983)**	(26,482)
	Finance costs	**(38,336)**	(37,875)
	Amortisation of PSC	**(51,228)**	(64,663)
	Impairment loss on PSC	**(454,192)**	(323,032)
	PRC Enterprise Income Tax	**(1,806)**	(101)
	Reversal of deferred tax liabilities	**126,355**	96,924
(ii)	**Other comprehensive (expense) income**		
	Exchange difference on translation of foreign operations	**(32,799)**	66,995
(iii)	**Assets and liabilities**		
	Intangible assets – PSC	**526,196**	1,085,886
	Property, plant and equipment*	**93,600**	98,653
	Other payables	**(32,957)**	(23,864)
	Other borrowing	**(11,267)**	(11,814)
	Tax liabilities	**–**	(30)
	Deferred tax liabilities *(note 14(d))*	**(131,548)**	(271,470)

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

		2018	2017
		HK$'000	*HK$'000*
(iv)	**Capital commitments** *(note 34(a))*		
	Contracted but not provided for	**17,820**	23,179

18. INTANGIBLE ASSETS *(Continued)*

Notes: (Continued)

(b) Impairment test on PSC

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

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

Period of cash flow projections	19 years
Discount rate (pre-tax)	19.23%

The calculation is based on the pre-tax cash flow projections of the financial budgets approved by management covering a 19-year period and a pre-tax discount rate of 19.23% (2017: 21.30%), which have duly reflected risks specific to the PSC, assuming that all key information provided by management, which includes reserve quantity, feasibility of business plan, and exploitation method, are appropriate and feasible. The cash flow projections are based on budget sales, expected gross margins and expected capital expenditure determined based on management's experience and expectations of market developments in the coalbed methane industry in the PRC. The CBM reserve quantity used in the valuation of the PSC as at 31 December 2018 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 further 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$454,192,000 (2017: HK$323,032,000) has been recognised in the consolidated statement of profit or loss for the year ended 31 December 2018.

19. INVESTMENTS IN SUBSIDIARIES

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

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

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

Name of the Company	Place of incorporation/ operation	Proportion of ownership interest: Group's effective interest	Held by the Company	Held by a subsidiary	Issued and paid up capital	Principal activities
International Standard Resources Financial Service Limited	Hong Kong	100%	100%	–	HK$1	Investment holding
International Standard Resources Securities Limited	Hong Kong	100%	–	100%	HK$10,000,000	Securities brokerage
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

19. INVESTMENTS IN SUBSIDIARIES *(Continued)*

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

Note:

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

The Group had no subsidiaries which have material non-controlling interests for the years ended 31 December 2018 and 2017.

20. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	2018	2017
	HK$'000	*HK$'000*
Non-current		
Club debentures at FVTPL *(note (a))*	**1,000**	–
Current		
Listed investments in Hong Kong at FVTPL *(note (b))*	**10,010**	29,599

Notes:

(a) The fair value of the club debentures at FVTPL was estimated by the directors of the Company with reference to the expected value to be realised.

(b) 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.

21. LOAN RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Treasury business:		
– Secured short-term loans	**–**	5,510

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

22. TRADE AND OTHER RECEIVABLES

	2018	2017
	HK$'000	*HK$'000*
Trade receivables *(note (a))*	**15,293**	15,822
Less: Allowance for doubtful debts *(note (b))*	**(14,472)**	(14,562)
	821	1,260
Other receivables	**824**	1,084
Other receivable from escrow agent *(note (c))*	**50,000**	85,000
Deposits and prepayments	**1,395**	1,108
	52,219	87,192
	53,040	88,452
Analysed for reporting purpose as:		
Non-current assets	**–**	85,000
Current assets	**53,040**	3,452
Total	**53,040**	88,452

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis of trade receivables

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

	2018	2017
	HK$'000	*HK$'000*
0-30 days	**581**	1,101
31-90 days	**240**	158
91-365 days	**–**	1,081
Over 365 days	**14,472**	13,482
	15,293	15,822
Less: Allowance for doubtful debts	**(14,472)**	(14,562)
	821	1,260

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

(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:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**14,562**	13,516
(Reversal of impairment losses) impairment losses on trade receivables	**(90)**	1,046
At 31 December	**14,472**	14,562

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

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

22. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(c) Subsequent to 31 December 2018, the Group and the escrow agent have resolved the disputed matter for the settlement amount of HK$50,000,000 and a write off of HK$35,000,000 was made against unrecoverable receivable amounts. The other receivable from escrow agent as at 31 December 2018 has been fully settled. Taking into account the receivable has been settled, the Group has reclassified the escrow sums to current asset as at 31 December 2018.

23. CASH AND BANK BALANCES

	2018	2017
	HK$'000	*HK$'000*
Cash at banks and on hand	**6,374**	34,967
Less: Pledged bank deposits	**(180)**	(180)
Less: Restricted bank balances	**(33)**	–
Cash and cash equivalents in the consolidated statement of cash flows	**6,161**	34,787

Note:

Among the bank balances of the Group, approximately HK$33,000 (equivalent to approximately RMB29,000) (2017: Nil) were frozen by the Suzhou City Yongqiao District People's Court* as at 31 December 2018. For details, please refer to note 35 to the consolidated financial statements.

Bank balances carry interest ranging from 0.01% to 0.3% (2017: from 0.01% to 1.95%) per annum. Short-term bank deposits amounting to HK$180,000 (2017: HK$180,000) carry fixed interest rate of 0.2125% (2017: 0.2125%) per annum and are pledged to a bank to secure banking facilities granted to the Group.

* *for identification purpose only*

24. ASSET CLASSIFIED AS HELD FOR SALE

	2018	2017
	HK$'000	*HK$'000*
Asset classified as held for sale	–	4,274

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

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

During the year ended 31 December 2018, all conditions precedent had been fulfilled and the transaction was completed.

* *for identification purpose only*

Note:

	2018
	HK$'000
Gain on disposal of asset classified as held for sale:	
Consideration received	19,458
Carrying amount of property	(4,217)
	15,241

25. OTHER BORROWING, UNSECURED

Other borrowing, relating to the CBM business under the PSC (note 18) and payable to an independent third party, is unsecured, interest free and with no fixed repayment terms. The movements in other borrowing during the year are as follows:

	2018	2017
	HK$'000	*HK$'000*
At 1 January	**11,814**	11,265
Advance from (repayment for) other borrowing	**68**	(288)
Exchange adjustment	**(615)**	837
At 31 December	**11,267**	11,814

26. TRADE AND OTHER PAYABLES

	2018	2017
	HK$'000	*HK$'000*
Trade payables *(note (a))*	**1,383**	2,053
Other payables *(note (b))*	**35,129**	28,093
Deposits received	**–**	2,162
Amounts due to non-controlling interests of a subsidiary *(note 37)*	**16,072**	15,737
Accrued expenses	**10,301**	8,342
	62,885	56,387
Analysed for reporting purpose as:		
Non-current liabilities	**16,072**	–
Current liabilities	**46,813**	56,387
Total	**62,885**	56,387

26. TRADE AND OTHER PAYABLES *(Continued)*

Notes:

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

	2018	2017
	HK$'000	*HK$'000*
Current – within 1 month	**510**	1,132
More than 1 month but within 3 months	**836**	820
More than 3 months but within 6 months	**7**	15
More than 6 months	**30**	86
	1,383	2,053

(b) Other payables included approximately RMB16,365,000 (equivalent to approximately HK$18,639,000) of engineering fees payable to creditors in PRC.

27. BONDS

	Unlisted bond ("Bond I") *HK$'000* *(note (a))*	Unlisted bond ("Bond II") *HK$'000* *(note (b))*	Unlisted bond ("Bond III") *HK$'000* *(note (c))*	Unlisted bond ("Bond IV") *HK$'000* *(note (d))*	Total *HK$'000*
At 1 January 2017	106,949	938	10,901	32,188	150,976
Issue of bonds, net of transaction cost	–	–	–	4,450	4,450
Repayment of bonds	(87,000)	–	–	–	(87,000)
Interest charge	10,460	90	805	3,776	15,131
Less: Interest paid	(6,490)	(70)	(770)	(2,429)	(9,759)
At 31 December 2017 and 1 January 2018	23,919	958	10,936	37,985	73,798
Repayment of bonds	(24,000)	–	–	–	(24,000)
Interest charge	193	92	807	3,964	5,056
Less: Interest paid	(112)	(70)	(770)	(2,460)	(3,412)
At 31 December 2018	–	980	10,973	39,489	51,442

Analysed for reporting purpose as:

At 31 December 2018					
Non-current liabilities	–	–	–	4,777	4,777
Current liabilities	–	980	10,973	34,712	46,665
Total	–	980	10,973	39,489	51,442
At 31 December 2017					
Non-current liabilities	–	958	10,936	37,985	49,879
Current liabilities	23,919	–	–	–	23,919
Total	23,919	958	10,936	37,985	73,798

27. BONDS *(Continued)*

Notes:

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

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

Bond I would mature and be redeemed by the Company on the third anniversary of the date of issue correspondingly. During the year, an aggregate principal amount of HK$24,000,000 (2017: HK$87,000,000) were repaid. There were no remaining balance of Bond I as at 31 December 2018.

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

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

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

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

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

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

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

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

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

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

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

28. PROMISSORY NOTES

	Promissory Note I	Promissory Note II	Promissory Note III	Total
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*
	(note (a))	*(note (b))*	*(note (c))*	
Issue of promissory notes	6,000	7,500	5,000	18,500
Interest charge	421	307	12	740
At 31 December 2018	6,421	7,807	5,012	19,240

	2018	2017
	HK$'000	*HK$'000*
Analysed for reporting purpose as:		
Non-current liabilities	**5,012**	–
Current liabilities	**14,228**	–
Total	**19,240**	–

Notes:

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

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

(c) On 21 December 2018, a Promissory Note III with an aggregate principal amount of HK$5,000,000 was issued to an independent third party of the Group with an interest rate of 8% per annum payable in one lump sum on the maturity date and will mature on 30 June 2020.

29. CONVERTIBLE NOTES, UNSECURED

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

The initial conversion price of the Old Convertible Notes was HK$0.12 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 in each year, and will mature on 31 December 2018. 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 2018.

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 11.80% per annum.

The conversion price of the Old Convertible Notes was adjusted to HK$0.11 on 17 September 2015 and to HK$0.10 on 19 November 2015 upon completion of the shares issue under open offer and bonus issue of warrants. Besides, the conversion price of the Old Convertible Notes was adjusted to HK$0.20 from the close of business on 23 February 2017 and to HK$0.17 on 4 March 2017 upon completion of the share consolidation and the rights issue respectively. Furthermore, the conversion price of the Old Convertible Notes was adjusted to HK$1.70 from the close of business on 25 July 2018 upon completion of the share consolidation as detailed in note 30 to the consolidated financial statements.

During the year ended 31 December 2017, Old Convertible Notes with principal amount of HK$122,000,000 were redeemed. During the year ended 31 December 2018, no Old Convertible Notes was redeemed.

On 24 August 2018, the Company entered into a conditional agreement ("Convertible Notes Restructuring Agreement") with the noteholder to restructure the terms of the Old Convertible Notes. Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, on 6 November 2018, the Company issued new convertible notes with principal value of HK$365,000,000 ("New Convertible Notes") for settlement of the Old Convertible Notes.

The initial conversion price of the New Convertible Notes was HK$0.16 (subject to adjustments at any time during the period, commencing from the issue date), the New Convertible Notes bear interest at the coupon rate of 2% per annum, payable semi-annually in arrears on 30 June and 31 December in each year, and will mature on 31 December 2021. The holder 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 2021.

29. 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 19.39% per annum.

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 an independent professional valuation using the binomial lattice model, which requires various sources of information and assumptions. The inputs to this model are taken from observable markets, but where this is not feasible, a degree of judgement is required in establishing the fair value.

The following key inputs and data were applied to the binomial lattice model for the derivatives embedded in the convertible notes at 31 December 2018 and 2017.

	New Convertible Notes At 31/12/2018	Old Convertible Notes At 31/12/2017
Share price	**HK$0.17**	HK$0.037
Conversion price	**HK$0.16**	HK$0.17
Risk free rate	**1.71%**	1.06%
Expected dividend yield	**Nil**	Nil
Annualised volatility	**72.06%**	84.35%

29. CONVERTIBLE NOTES, UNSECURED *(Continued)*

The movements of the embedded derivatives portion (at fair value) and the 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 2018

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal amount of HK$487,000,000) as at 1 January 2017	105,841	403,190	509,031
Imputed interest charged to consolidated statement of profit or loss	–	37,875	37,875
Decrease in fair value credited to consolidated statement of profit or loss	(92,938)	–	(92,938)
Redemption (with principal amount of HK$122,000,000)	(11,567)	(102,538)	(114,105)
Interest paid	–	(9,133)	(9,133)
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 31 December 2017 and 1 January 2018	1,336	329,394	330,730
Imputed interest charged to consolidated statement of profit or loss	–	32,227	32,227
Decrease in fair value credited to consolidated statement of profit or loss	(1,336)	–	(1,336)
Interest paid	–	(7,300)	(7,300)
Carrying amount immediately before restructuring	–	354,321	354,321
Fair value at the date of restructuring	(134,716)	(225,722)	(360,438)
Loss on restructuring	134,716	(128,599)	6,117
Carrying amount of convertible notes	–	–	–

29. CONVERTIBLE NOTES, UNSECURED *(Continued)*

New Convertible Notes due on 31 December 2021

	Embedded derivatives portion	**Liability portion**	**Total**
	HK$'000	*HK$'000*	*HK$'000*
Issue of convertible notes (with principal amount of HK$365,000,000) on 6 November 2018	134,716	225,722	360,438
Imputed interest charged to consolidated statement of profit or loss	–	6,109	6,109
Increase in fair value charged to consolidated statement of profit or loss	7,882	–	7,882
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 31 December 2018	142,598	231,831	374,429

At 31 December 2018, New Convertible Notes with principal amount of HK$365,000,000 remained outstanding.

30. SHARE CAPITAL

	Number of ordinary shares	Share capital
		HK$'000
Issued and fully paid		
At 1 January 2017	6,387,724,561	1,894,252
Share consolidation *(note (a))*	(3,193,862,281)	–
Issue of new shares under rights issue, net of share issue expenses *(note (b))*	1,596,931,140	137,972
Issue of shares upon exercise of warrants *(note (c))*	30,000	3
At 31 December 2017 and 1 January 2018	4,790,823,420	2,032,227
Issue of shares upon exercise of warrants *(note (c))*	1,022,756	95
Share consolidation *(note (d))*	(4,312,661,559)	–
At 31 December 2018	479,184,617	2,032,322

Notes:

(a) Share consolidation effective on 24 February 2017

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

(b) Issue of new shares under rights issue

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

(c) Issue of shares upon exercise of warrants

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

During the year up to 10 May 2018, being the date of expiry of the warrants, 1,022,756 ordinary shares were issued for cash at the subscription price of HK$0.093 per share pursuant to the exercise of the warrants. There were no warrants outstanding as at 31 December 2018 as they had lapsed on 10 May 2018.

30. SHARE CAPITAL *(Continued)*

Notes: (Continued)

(d) Share consolidation effective on 26 July 2018

On 27 June 2018, the directors of the Company proposed that every ten issued shares of the Company be consolidated into one consolidated share. The share consolidation was approved by the shareholders of the Company at the extraordinary general meeting of the Company held on 25 July 2018. As all the conditions precedent to the share consolidation have been fulfilled, the share consolidation became effective on 26 July 2018.

All the new shares issued during the years ended 31 December 2018 and 2017 ranked pari passu with the then existing shares in all respects.

31. WARRANTS

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

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

During the year up to 10 May 2018, being the date of expiry of the warrants, 1,022,756 ordinary shares were issued for cash at the subscription price of HK$0.093 per share pursuant to the exercise of the warrants. There were no warrants outstanding as at 31 December 2018 as they had lapsed on 10 May 2018.

32. SHARE OPTION SCHEME

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

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

At the annual general meeting of the Company held on 7 June 2017, an ordinary resolution was passed refreshing the scheme mandate limit. The maximum number of shares of the Company issuable upon exercise of all share options granted and to be granted under the Scheme is an amount equivalent to 10% of the shares of the Company in issue as at 7 June 2017. This limit can further be refreshed by the shareholders of the Company in a general meeting in accordance with the provisions of the Listing Rules. The maximum number of shares issuable under share options granted to each eligible participant under the Scheme within any twelve-month period, is limited to 1% of the shares of the Company in issue at any time. Any further grant of share options in excess of this limit is subject to the shareholders' approval in a general meeting.

There were no share options granted and exercised during the two years ended 31 December 2018 and 2017. There were no share options outstanding as at 31 December 2018 and 2017.

33. EMPLOYEE RETIREMENT BENEFITS

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

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

The Group's contributions to employee retirement benefits for the year ended 31 December 2018 were HK$1,819,000 (2017: HK$2,092,000). As at 31 December 2018, there was no material outstanding contribution to employee retirement benefits.

34. COMMITMENTS

(a) Capital commitments outstanding as at 31 December 2018 not provided for in the consolidated financial statements were as follows:

	2018	2017
	HK$'000	*HK$'000*
Production sharing contract:		
– Contracted but not provided for	**17,820**	23,179

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

34. COMMITMENTS *(Continued)*

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	2018	2017
	HK$'000	*HK$'000*
Within 1 year	**2,179**	1,334
After 1 year but within 5 years	**877**	351
	3,056	1,685

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

35. LITIGATION

(i) 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 the escrow agent for the release of the escrow monies, the Group had not received the escrow monies. It was reported that a partner in the escrow agent 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 the escrow agent, claiming for the return of the escrow monies.

Subsequent to 31 December 2018, the Group and the escrow agent have resolved the disputed matter as disclosed in the announcement of the Company dated 22 March 2019. The other receivable from escrow agent has been fully settled.

35. LITIGATION *(Continued)*

(ii) On 13 November 2018, Can-Elite received two statements of claim issued by Beijing Dadi Gaoke Geological Exploration Company Limited ("Dadi") against Can-Elite and filed with Beijing Dongcheng District People's Court, for the default in payment of outstanding engineering fees under agreements in an aggregate principal amount of RMB5,866,973.20 and all related interests. Subsequent to 31 December 2018, in March 2019, Can-Elite and Dadi have entered into confidential settlement agreements and filed the same to the respective courts for confirmation.

(iii) On 18 December 2018, Can-Elite received a statement of claim issued by Shandong Provincial Bureau of Coal Geology Exploration Team II ("SPBCG Team II") against Can-Elite and filed with the Suzhou City Yongqiao District People's Court for the default in payment of outstanding engineering fees under agreement in an aggregate amount of RMB971,370 and all related expenses. Subsequent to 31 December 2018, in March 2019, Can-Elite and SPBCG Team II reached a settlement arrangement as disclosed in the announcement of the Company dated 28 March 2019.

36. CONTINGENCIES

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.

37. 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

	2018	2017
	HK$'000	*HK$'000*
Salaries, allowances and other benefits in kind	**4,949**	6,909
Discretionary bonuses	**208**	256
Retirement scheme contributions	**86**	97
	5,243	7,262

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

	2018	2017
	HK$'000	*HK$'000*
Amounts due to non-controlling interests of a subsidiary *(note 26)*	**16,072**	15,737

The amounts due to non-controlling interests of a subsidiary are unsecured and interest free. As at 31 December 2018, non-controlling interests of a subsidiary agreed not to demand repayment in the next twelve months from 31 December 2018.

38. COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION

	2018 *HK$'000*	2017 *HK$'000*
Non-current assets		
Property, plant and equipment	**11**	27
Interest in subsidiaries, net	**392,400**	846,585
Other receivables	**–**	35,000
Financial assets at fair value through profit or loss	**1,000**	–
Available-for-sale financial assets	**–**	1,000
	393,411	882,612
Current assets		
Amounts due from subsidiaries, net	**72,621**	146,372
Other receivables	**21,098**	310
Cash and bank balances	**1,269**	17,439
	94,988	164,121
Current liabilities		
Bonds	**46,665**	23,919
Promissory notes	**14,228**	–
Convertible notes – liability portion, unsecured	**–**	329,394
Convertible notes – embedded derivatives, unsecured	**–**	1,336
Other payables	**1,924**	1,429
	62,817	356,078
Net current assets (liabilities)	**32,171**	(191,957)
Total assets less current liabilities	**425,582**	690,655
Non-current liabilities		
Bonds	**4,777**	49,879
Promissory notes	**5,012**	–
Convertible notes – liability portion, unsecured	**231,831**	–
Convertible notes – embedded derivatives, unsecured	**142,598**	–
	384,218	49,879
Net assets	**41,364**	640,776
Capital and reserves		
Share capital	**2,032,322**	2,032,227
Reserves *(note)*	**(1,990,958)**	(1,391,451)
Total equity	**41,364**	640,776

The Company's statement of financial position was approved and authorised for issue by the board of directors on 28 March 2019 and are signed on its behalf by:

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

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

Note:

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

	Special capital reserve *HK$'000* *(note 39(a))*	**Accumulated losses** *HK$'000*	**Total** *HK$'000*
At 1 January 2017	579,799	(1,814,146)	(1,234,347)
Loss and total comprehensive expenses for the year	–	(157,104)	(157,104)
At 31 December 2017 and 1 January 2018	579,799	(1,971,250)	(1,391,451)
Loss and total comprehensive expenses for the year	–	(599,507)	(599,507)
At 31 December 2018	579,799	(2,570,757)	(1,990,958)

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 2018 and 2017.

39. RESERVES

(a) Special capital reserve

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

(b) Exchange reserve

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

(c) Distributable reserves

As at 31 December 2018, 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 (2017: Nil).

FINANCIAL SUMMARY

Results	Year ended 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Revenue	**9,109**	16,669	23,518	58,229	130,628
Loss before tax	**(657,874)**	(403,642)	(498,325)	(545,727)	(223,185)
Income tax	**127,083**	99,495	113,790	121,270	26,085
Loss for the year	**(530,791)**	(304,147)	(384,535)	(424,457)	(197,100)
Other comprehensive (expenses) income for the year	**(33,081)**	66,834	(82,841)	(89,845)	(10,083)
Total comprehensive expenses for the year	**(563,872)**	(237,313)	(467,376)	(514,302)	(207,183)
Loss for the year attributed to:					
Owners of the Company	**(530,452)**	(303,913)	(384,448)	(423,744)	(196,428)
Non-controlling interests	**(339)**	(234)	(87)	(713)	(672)
	(530,791)	(304,147)	(384,535)	(424,457)	(197,100)

	At 31 December				
	2018	2017	2016	2015	2014
	HK$'000	*HK$'000*	*HK$'000*	*HK$'000*	*HK$'000*
Assets and liabilities					
Total assets	**690,821**	1,348,896	1,772,588	2,331,655	2,885,729
Total liabilities	**(652,371)**	(746,669)	(1,071,023)	(1,225,264)	(1,544,305)
Total equity	**38,450**	602,227	701,565	1,106,391	1,341,424
Non-controlling interests	**4,534**	4,195	3,961	3,874	3,161
Equity attributable to owners of the Company	**42,984**	606,422	705,526	1,110,265	1,344,585