INTERNATIONAL STANDARD RESOURCES
標準資源

INTERNATIONAL STANDARD RESOURCES HOLDINGS LIMITED

(Stock code : 91)

INTERIM REPORT 2019

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
Rooms 1501-8, 15th Floor
Tai Yau Building
181 Johnston Road
Wanchai, Hong Kong

REGISTERED OFFICE

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

SHARE REGISTRAR

Tricor Standard Limited
Level 54, Hopewell Centre
183 Queen's Road East
Hong Kong

LISTING EXCHANGE

The Stock Exchange of Hong Kong Limited
Stock code: 91

COMPANY WEBSITE

www.intl-standardresources.com

The Board of Directors (the "**Board**" or "**Directors**") of International Standard Resources Holdings Limited (the "**Company**") hereby present the unaudited consolidated interim results of the Company and its subsidiaries (the "**Group**") for the six months ended 30 June 2019 (the "**Period**").

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

The Group's revenue for the Period was HK$4,366,000 (2018: HK$5,383,000), representing a decrease of 18.89%. The revenue generated by the sale of electronic components decreased by 9.12% from HK$4,804,000 in 2018 to HK$4,366,000 in 2019. The coalbed methane exploration and exploitation operating subsidiary and the treasury segment did not contribute to the Group's revenue during the Period. The Group recorded a gross profit of HK$481,000 in 2019, a decrease from HK$534,000 in 2018.

The Group's loss for the Period was HK$309,946,000 (2018: HK$71,558,000). Substantial part of Group's performance was mainly due to the accounting treatments of various items, such as amortisation of the production sharing contract (the "**PSC**") amounted to HK$13,411,000 (2018: HK$26,606,000), the impairment loss on the PSC amounted to HK$413,598,000 (2018: Nil), gain on fair value change of convertible notes' embedded derivatives amounted to HK$48,295,000 (2018: HK$1,336,000), imputed interest on convertible notes amounted to HK$21,131,000 (2018: HK$18,526,000), imputed interest on bonds amounted to HK$2,485,000 (2018: HK$2,605,000), net gain on revaluation of financial assets at fair value through profit or loss amounted to HK$5,864,000 (2018: loss of HK$5,654,000), net foreign exchange loss amounted to HK$356,000 (2018: HK$2,823,000) and the deferred tax credit amounted to HK$106,000,000 (2018: HK$7,652,000). The aggregate net result of the abovementioned accounting profits and losses for 2019 was loss of HK$290,822,000 (2018: HK$47,226,000). The accounting profits and losses mentioned above did not have actual impact on the cashflow position of the Group.

For comparison purpose, the loss after tax for 2019 and 2018, if excluding those accounting profits and losses, was HK$19,124,000 and HK$24,332,000 respectively.

The Group recorded a loss attributable to owners of the Company of approximately HK$309,807,000 (2018: HK$71,419,000), and basic and diluted loss per share was approximately HK64.65 cents (2018: HK14.91 cents). The Directors do not recommend the payment of a dividend in respect of the Period.

LIQUIDITY AND FINANCIAL RESOURCES

As at 30 June 2019, the Group had current assets of HK$47,795,000 (31 December 2018: HK$69,424,000) and current liabilities of HK$103,583,000 (31 December 2018: HK$124,338,000) and cash and bank balances of HK$27,292,000 (31 December 2018: HK$6,374,000). The Group's current ratio, being a ratio of current assets to current liabilities, was approximately 46.14% (31 December 2018: 55.83%).

In March 2019, a bondholder, with 3-year 7% coupon unlisted straight bonds in an aggregate principal amount of HK$10,000,000, entered into a supplemental agreement with the Company to extend the maturity date for the redemption of the outstanding principal amount for three years to the sixth anniversary of the date of issue (i.e. extended to 2022).

In March 2019, the maturity date of promissory notes with principal amount of HK$6,000,000 and HK$7,500,000 were extended from 14 August 2019 to 30 September 2020 and from 31 July 2019 to 30 September 2020 respectively, and the interest rate was changed from 8% per annum to 15% per annum payable in one lump sum on the maturity date.

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.

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

On 24 August 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 (the "**Convertible Notes Restructuring Agreement**"). Upon completion of the stipulated conditions precedent to the Convertible Notes Restructuring Agreement, new convertible notes due 31 December 2021 would be issued for the settlement of the existing convertible notes. 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.

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.

PROPOSED RIGHTS ISSUE AND BONUS WARRANT ISSUE

On 13 June 2019, the Company proposed to raise approximately HK$28.75 million, before expenses, by way of a rights issue on the basis of one rights share for every two shares held on the record date (i.e. 16 August 2019) at a subscription price of HK$0.12 per rights share. Net proceeds of approximately HK$27.25 million are to be utilised (i) as to approximately HK$20 million for the repayment of the corporate bonds which will be matured in or around November 2019; (ii) as to approximately HK$5 million for development of the new segment, i.e. brokerage services and margin financing business to be carried out by a wholly-owned subsidiary of the Company; and (iii) the remaining balance for the general working capital of the Group.

The Company further proposed, subject to the satisfaction of the conditions which include the completion of the aforesaid rights issue, to make a bonus warrant issue to the shareholders on the basis of one warrant for every five shares of the Company held by the shareholders on the warrant record date which is expected to be 30 September 2019. Holders of these bonus warrants will be entitled to subscribe in cash at any time during the period commencing from the date of issue of the warrants to the date falling 12 months from the date of issue of the warrants, which is expected to be from 16 October 2019 to 15 October 2020 (both dates inclusive) for new shares at an initial subscription price of HK$0.04 per share (subject to adjustment). The total amount of proceeds that may be raised upon the exercise of the warrants are approximately HK$5.75 million. The Company intends to apply the proceeds as general working capital of the Group. The bonus warrant issue is subject to the shareholders' approval at the extraordinary general meeting to be held on 18 September 2019.

COMMITMENTS

Details of the commitments of the Group are set out in note 22 to the condensed consolidated financial statements.

EXPOSURE TO FLUCTUATION IN EXCHANGE RATES AND RELATED HEDGES

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

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

CONTINGENCIES

Save as disclosed in note 24 to the condensed consolidated financial statements, the Group had no other contingencies as at 30 June 2019.

LITIGATION

Save as disclosed in note 23 to the condensed consolidated financial statements, so far as known to the Directors, there was no other litigation, arbitration or claim of material importance in which the Group is engaged or pending or which was threatened against the Group.

CHARGED ON ASSETS

The short-term bank deposits, amounted to approximately HK$120,000, have been pledged as securities for banking facilities granted to the Group as at 30 June 2019. Equity securities listed in Hong Kong classified as financial assets at fair value through profit or loss with carrying amount of HK$13,877,000 are placed in margin accounts of a regulated securities broker. No margin facility is utilised as at 30 June 2019.

EVENT AFTER THE REPORTING PERIOD

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

EMPLOYEES AND REMUNERATION POLICIES

As at 30 June 2019, the Group had 40 employees, of which 19 were in Hong Kong and 21 were in the PRC. Employee remuneration policy of the Group is reviewed periodically and is determined based on performance of the Group and employees' responsibilities, qualifications and performances. Remuneration packages comprised basic salary, discretionary bonus, medical schemes, share options, mandatory provident fund schemes for employees in Hong Kong and the state-managed employee pension schemes for employees in the PRC.

MATERIAL ACQUISITIONS AND DISPOSALS OF SUBSIDIARIES

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

BUSINESS REVIEW

During the Period, the Group was mainly engaged in coalbed methane ("**CBM**") exploration and production in the PRC, electronic components trading and treasury businesses.

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 30 June 2019, 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 of 2018. As the technical experts considered that it is not cost effective to replace the pumps, these wells eventually ceased to produce since July 2018. Thus, there was no contribution from the CBM business for the Period. Despite the fact that there is a gain on fair value change of the embedded derivative portion of the convertible notes of HK$48,295,000 (2018: HK$1,336,000), a loss of HK$409,605,000 (2018: HK$56,825,000) was recorded mainly due to the amortisation of the PSC of HK$13,411,000 (2018: HK$26,606,000), the imputed interest on convertible notes of HK$21,131,000 (2018: HK$18,526,000) and the impairment loss on the PSC of HK$413,598,000 (2018: Nil) which was resulted from the further delay on the implementation and the scaledown 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.

During the Period, Can-Elite did not carry out new exploration works in both Area A and Area B due to the fact that the Group is undergoing tight financial constraints and was in the course to revamp the overall business plan and focused on adapting to the CBM technical specification, reinforcing coordination with China United, adjusting and improving the management team of the project. Can-Elite made efforts on optimising the technical deployment, cutting down operation cost, and commencing on the preparation of the pre-development of project.

Besides, Can-Elite has actively sought cooperation with a number of domestic professional companies with technical and financial strength with the view to solving the problems regarding capital requirement and breakthrough in production capacity. Moreover, it has sought cooperation with energy corporations in the region to share engineering information and geological information such as horizontal wells in order to increase the success rate of the horizontal wells.

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 phrase; most of the exploration wells are undergoing reasonable maintenance and small scale of extraction works and will be transformed to production wells, while some low production wells will be performed extraction testing and fracturing transformation in order to increase the production level. In Area B, exploration wells that drilled in the past years are undergoing reasonable maintenance and Can-Elite will perform extraction testing, fracturing transformation, drainage and extraction observation following the national reserve specification and put into production testing and evaluation analysis in order to obtain necessary data to prepare the reserve report.

In 2019 and 2020, Can-Elite will focus on all necessary preparation work in order to submit the overall development proposal to the relevant PRC government authorities for approval/filing in late 2020 and start commercial production in 2022. Pursuant to the fourth modification agreement entered into between Can-Elite and China United in August 2017, the exploration period of Area B will be ended on 31 March 2020. In order to safeguard the legal rights and interests of the resources in this area, Can-Elite will actively coordinate with China United to extend the exploration period and to jointly determine the direction of the work plan so as to resume the exploration works, overcome difficulties to ensure the continuous and effective cooperation of the blocks and prepare the reserve report as soon as possible.

Treasury Business

The treasury business includes securities trading and money lending business.

The Group adopts a prudent approach for all its investments with the view for short to medium term profit. At 30 June 2019, the Group held an investment portfolio of listed securities in Hong Kong with an aggregate amount of approximately HK$16,535,000. During the Period, the Group recorded a net unrealised gain of approximately HK$5,864,000 (i.e. unrealised gains of approximately HK$5,880,000 and unrealised losses of approximately HK$16,000). The unrealised gain was attributable to the Group's investment in Styland Holdings Limited ("**STYLAND**"). Details of the investments in STYLAND are as follows:

	Six months ended 30 June 2019		At 30 June 2019		At 31 December 2018
	Fair value gain	Approximate percentage of fair value gain on held-for-trading investments	Market value	Approximate percentage of held-for-trading investments	Market value
	HK$'000		*HK$'000*		*HK$'000*
STYLAND	5,880	100%	15,063	91.10%	10,010

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.

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 Period, due to the reallocation of funds, the Group did not distribute any amount of funds to the money lending business. As a result, no revenue was generated from this segment (i.e. interest income) (2018: HK$47,000).

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 to HK$4,366,000, which represent a 9.12% decrease as compared to the corresponding period in 2018. 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

The strategy of enhancing the capability of securing oil and gas resources and facilitating a high-quality development in the industry are rising to become a part of the national energy security strategy. In 2019, the Central People's Government of the PRC successively introduced major policies, which brought new and important benefits to the oil and gas industry. In March 2019, the State Council of the PRC issued the "Decision on Cancelling and Delegating a Group of Administrative Licensing Items" (Guo Fa [2019] No. 6), which changed the PRC's National Development and Reform Commission's (the "**NDRC**") "Approval of the Overall Development Plan for Oil and Gas (Including Coalbed Methane) Foreign Cooperation Projects" (i.e. ODP Approval) to a filing system. According to this policy, it is expected that the preparation, reporting and filing of ODP in relation to Area A of the CBM project can be accelerated and the project can be put into formal development stage as soon as possible. In June 2019, the "Special Administrative Measures for Access of Foreign Investment (Negative List) (2019 Edition)" issued by the NDRC and the Ministry of Commerce of the PRC cancelled the restriction that the exploration and development of oil and gas are limited to joint venturing and cooperation, which means upstream exploration and development of oil and gas will be completely opened to foreign and private enterprises.

In response to the PRC government's decision and requirements, the oil and gas industry is accelerating the pace of exploration and development, and the related drilling and fracturing projects have increased. At the same time, resource blocks in cooperation with state-owned enterprises are also subject to the demand of increasing efforts in project exploration and development. It also involves the cooperation project between Can-Elite and China United. This provides a good policy environment for the development of the Group as a whole.

Can-Elite has been looking for breakthroughs and progress through long-term exploration in the Luling and Su'nan blocks, in particular, various exploration works such as deep drilling and horizontal drilling, seismic and geophysical studies are adopted. Expert teams are of the view that the CBM resources in the blocks are particularly complex in terms of geological conditions and are not suitable for an extensive exploration and development in a blanket fashion, but instead it should be proceeded prudently on a rolling basis and orderly fashion. In this regard, Can-Elite and China United have reached a consensus.

In the future, Can-Elite will, according to changes in situation, capitalise on the progress of cooperation in the blocks, draw on the experience and lessons learnt, actively coordinate with its partner, China United, and also comprehensively take into account factors such as the expected investment benefits and the trend of the natural gas market. During the term of the cooperation agreement, pursuant to the relevant terms of the production sharing contract signed with China United, Can-Elite will focus on the development and exploration of Area A, which is the area with proven reserves; deploy a certain number of stable production wells to increase production capacity and output of the blocks and achieve the annual production target as soon as possible; complete the construction of the gathering and transportation facilities for ground gas concurrently to collect, process and sell well-produced natural gas in a timely manner. In addition, it strives to protect the legal rights and interests of the resources in Area B in order to continue the exploration and completing the declaration of reserve. While adapting to the market to meet the needs of the society for natural gas, the Group will also bring income returns to its shareholders and partners.

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 in the course of applying for the admission as a stock exchange participant of the Stock Exchange and a direct clearing participant of HKCSS. It is expected that this new segment will generate income from brokerage services and margin financing in late 2019.

The Group’s stringent financial position will nevertheless hinder the Group’s development. The Group will continue to adopt a prudent approach, adapt to the situation and follow closely to the national policies with a view to improve its net liabilities position and to create value to its shareholders.

DIRECTORS’ INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS

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

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

As at 30 June 2019, the interests and short positions of each Director and chief executive of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "**SFO**")), as recorded in the register maintained by the Company under section 352 of the SFO or as otherwise notified to the Company and The Stock Exchange of Hong Kong Limited (the "**Stock Exchange**") pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "**Model Code**") contained in the Rules Governing the Listing of Securities on the Stock Exchange (the "**Listing Rules**") were as follows:

Long positions in shares of the Company

Name of Director/ Chief Executive	Nature of interest	Number of shares	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 30 June 2019, 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.

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

As at 30 June 2019, 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	130,725,625	–	27.28%
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 30 June 2019.

(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 of the time, Brighten Management Limited.

Save as disclosed above, as at 30 June 2019, the Company has not been notified of any other interests or short positions in the shares or underlying shares of the Company, which are required to be recorded in the register required to be kept under section 336 of the SFO.

CORPORATE GOVERNANCE

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

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

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

CHANGES REGARDING THE DIRECTORS OR SUPERVISOR

The changes regarding the Directors or supervisor as required to be disclosed pursuant to Rules 13.51(2) and 13.51B(1) of the Listing Rules are set out below:

(1) Mr. Albert Saychuan Cheok was appointed as a non-executive director of Peppermint Innovation Limited, the securities of which are listed on Australian Securities Exchange, on 29 April 2019.

MODEL CODE FOR SECURITIES TRANSACTION BY DIRECTORS

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

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES IN THE COMPANY

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

SHARE OPTION SCHEME

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

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

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

There were no share options granted and exercised during the six months ended 30 June 2019. There were no share options outstanding as at 30 June 2019.

As at 30 June 2019, the total number of shares available for issue under the Scheme is 47,907,934 shares, being 10% of the number of shares in issue on 7 June 2017 and adjusted for the effect of the share consolidation completed on 26 July 2018, representing approximately 10% of the number of shares of the Company in issue.

REVIEW OF INTERIM RESULTS

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

ACKNOWLEDGEMENT

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

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

Hong Kong, 26 August 2019

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 June 2019

		Unaudited Six months ended	
	Notes	**30 June 2019** ***HK$'000***	30 June 2018 *HK$'000*
Revenue	3	**4,366**	5,383
Cost of sales		**(3,885)**	(4,849)
Gross profit		**481**	534
Other income		**13**	606
Other gains and losses	4	**56,337**	(7,911)
Administrative expenses		**(21,084)**	(24,540)
Amortisation of production sharing contract		**(13,411)**	(26,606)
Impairment loss on production sharing contract		**(413,598)**	–
Reversal of impairment losses on trade receivables		**–**	90
Loss from operations		**(391,262)**	(57,827)
Finance costs	5	**(24,643)**	(21,319)
Loss before tax	6	**(415,905)**	(79,146)
Income tax	7	**105,959**	7,588
Loss for the period		**(309,946)**	(71,558)
Attributable to:			
Owners of the Company		**(309,807)**	(71,419)
Non-controlling interests		**(139)**	(139)
		(309,946)	(71,558)
Loss per share	9		
Basic and diluted *(HK cents per share)*		**(64.65)**	(14.91)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 June 2019

	Unaudited Six months ended	
	30 June 2019 *HK$'000*	30 June 2018 *HK$'000*
Loss for the period	**(309,946)**	(71,558)
Other comprehensive income (expense)		
Item that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of foreign operations	**137**	(7,579)
Other comprehensive income (expense) for the period, net of income tax	**137**	(7,579)
Total comprehensive expenses for the period	**(309,809)**	(79,137)
Attributable to:		
Owners of the Company	**(309,670)**	(78,998)
Non-controlling interests	**(139)**	(139)
	(309,809)	(79,137)

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 June 2019

	Notes	**Unaudited 30 June 2019 *HK$'000***	Audited 31 December 2018 *HK$'000*
Non-current assets			
Property, plant and equipment	10	**89,542**	94,201
Right-of-use assets	11	**614**	–
Intangible assets	12	**99,017**	526,196
Financial assets at fair value through profit or loss	13	**1,000**	1,000
		190,173	621,397
Current assets			
Financial assets at fair value through profit or loss	13	**16,535**	10,010
Trade and other receivables	14	**3,968**	53,040
Cash and bank balances		**27,292**	6,374
		47,795	69,424
Current liabilities			
Other borrowing, unsecured	15	**11,259**	11,267
Trade and other payables	16	**39,000**	46,813
Bonds	17	**42,339**	46,665
Promissory notes	20	**5,212**	14,228
Lease liabilities		**414**	–
Tax payables		**5,359**	5,365
		103,583	124,338
Net current liabilities		**(55,788)**	(54,914)
Total assets less current liabilities		**134,385**	566,483

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Continued)

At 30 June 2019

	Notes	**Unaudited 30 June 2019** ***HK$'000***	Audited 31 December 2018 *HK$'000*
Non-current liabilities			
Other payables	16	**16,342**	16,072
Bonds	17	**9,986**	4,777
Promissory notes	20	**14,053**	5,012
Lease liabilities		**109**	–
Convertible notes – liability portion, unsecured	18	**249,263**	231,831
Convertible notes – embedded derivatives, unsecured	18	**94,303**	142,598
Deferred tax liabilities	19	**21,701**	127,743
		405,757	528,033
Net (liabilities) assets		**(271,372)**	38,450
Capital and reserves			
Share capital	21	**2,032,322**	2,032,322
Reserves		**(2,299,021)**	(1,989,338)
(Capital deficiency) equity attributable to owners of the Company		**(266,699)**	42,984
Non-controlling interests		**(4,673)**	(4,534)
(Capital deficiency) total equity		**(271,372)**	38,450

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 June 2019

	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*
At 1 January 2018 (Audited)	2,032,227	579,799	179,575	(2,185,179)	606,422	(4,195)	602,227
Loss for the period	–	–	–	(71,419)	(71,419)	(139)	(71,558)
Other comprehensive expense for the period	–	–	(7,579)	–	(7,579)	–	(7,579)
Total comprehensive expenses for the period	–	–	(7,579)	(71,419)	(78,998)	(139)	(79,137)
Issue of shares upon exercise of warrants	95	–	–	–	95	–	95
At 30 June 2018 (Unaudited)	2,032,322	579,799	171,996	(2,256,598)	527,519	(4,334)	523,185

CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

(Continued)

For the six months ended 30 June 2019

	Attributable to the owners of the Company						
	Share capital *HK$'000*	Special capital reserve *HK$'000*	Exchange reserve *HK$'000*	Accumulated losses *HK$'000*	Sub-total *HK$'000*	Non-controlling interests *HK$'000*	Total equity (capital deficiency) *HK$'000*
At 1 January 2019 (Audited)	2,032,322	579,799	146,494	(2,715,631)	42,984	(4,534)	38,450
Transitional adjustments on the initial application of HKFRS 16	–	–	–	(13)	(13)	–	(13)
Adjusted as at 1 January 2019	2,032,322	579,799	146,494	(2,715,644)	42,971	(4,534)	38,437
Loss for the period	–	–	–	(309,807)	(309,807)	(139)	(309,946)
Other comprehensive income for the period	–	–	137	–	137	–	137
Total comprehensive income (expenses) for the period	–	–	137	(309,807)	(309,670)	(139)	(309,809)
At 30 June 2019 (Unaudited)	2,032,322	579,799	146,631	(3,025,451)	(266,699)	(4,673)	(271,372)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 June 2019

	Unaudited Six months ended	
	30 June 2019	30 June 2018
	HK$'000	*HK$'000*
Operating activities		
Cash generated from (used in) operations	**27,070**	(4,400)
Income tax paid	**(47)**	(65)
Interest received	**1**	79
Net cash generated from (used in) operating activities	**27,024**	(4,386)
Investing activities		
Decrease in restricted bank balances	**11**	–
Decrease in pledged bank deposits	**60**	–
Dividend received	**–**	261
Purchase of property, plant and equipment	**(158)**	(10,054)
Proceeds from disposal of property, plant and equipment	**33**	11
Net cash used in investing activities	**(54)**	(9,782)
Financing activities		
Proceeds from issue of shares upon exercise of warrants	**–**	95
Proceeds from issue of promissory notes	**–**	13,500
Advance from other borrowing	**–**	71
Interest paid	**(6,278)**	(5,394)
Repayment for bonds	**–**	(24,000)
Net cash used in financing activities	**(6,278)**	(15,728)

CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS *(Continued)*

For the six months ended 30 June 2019

	Unaudited Six months ended	
	30 June 2019	30 June 2018
	HK$'000	*HK$'000*
Net increase (decrease) in cash and cash equivalents	**20,692**	(29,896)
Cash and cash equivalents at beginning of period	**6,161**	34,787
Effect of foreign exchange rate changes	**297**	3,415
Cash and cash equivalents at end of period	**27,150**	8,306
Analysis of the balances of cash and cash equivalents:		
Cash and bank balances	**27,292**	8,486
Less: Restricted bank balances	**(22)**	–
Pledged bank deposits	**(120)**	(180)
Cash and cash equivalents at end of period	**27,150**	8,306

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

For the six months ended 30 June 2019

1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with Hong Kong Accounting Standard 34 ("HKAS 34") Interim Financial Reporting issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") as well as with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). It is authorised for issue on 26 August 2019.

The condensed consolidated financial statements have been prepared in accordance with the same accounting policies adopted in the 2018 annual financial statements, except for the accounting policy changes that become effective for the 2019 annual financial statements. Details of any changes in accounting policies are set out in note 2 to the condensed consolidated financial statements.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant for the understanding of the changes in financial position and performance of the Group since the 2018 annual financial statements. The condensed consolidated financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with the Hong Kong Financial Reporting Standards ("HKFRSs").

Going concern basis

The Group incurred a net loss attributable to owners of the Company of approximately HK$309,807,000 for the six months ended 30 June 2019. As at the same date, the Group's total liabilities exceeded its total assets by approximately HK$271,372,000 and capital deficiency attributable to owners of the Company amounted to approximately HK$266,699,000, and its total borrowings amounted to approximately HK$426,415,000 while its cash and cash equivalents amounted to approximately HK$27,150,000, net of restricted bank balances and pledged bank deposits of approximately HK$142,000. As at 30 June 2019, the Group recorded outstanding bonds of approximately HK$42,339,000 and promissory notes of approximately HK$5,212,000 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$9,986,000 and promissory notes of approximately HK$14,053,000 under non-current liabilities, which are due for repayment in 2022 and 2020 respectively.

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.

1. BASIS OF PREPARATION *(Continued)*

Going concern basis *(Continued)*

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

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

(ii) On 13 June 2019, the Company announced to raise funds by way of rights issue on the basis of one rights share for every two shares held on the record date at the subscription price of HK$0.12 per rights share. The estimated net proceeds from the rights issue is approximately HK$27,250,000, after deducting related expenses of approximately HK$1,500,000;

(iii) On 13 June 2019, the Company announced to propose the bonus warrant issue to its shareholders whose names appear on the register of members of the Company on the warrant record date on the basis of one warrant for every five shares at an initial subscription price of HK$0.04 held on the warrant record date;

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

(v) 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

(vi) 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 condensed consolidated financial statements.

1. BASIS OF PREPARATION *(Continued)*

The financial information relating to the year ended 31 December 2018 that is included in these condensed consolidated financial statements as comparative information does not constitute the Company's statutory annual consolidated financial statements for that year but is derived from those financial statements. Further information relating to the statutory financial statements is as follows:

The Company has delivered the financial statements for the year ended 31 December 2018 to the Registrar of Companies as required by section 662(3) of, and Part 3 of Schedule 6 to, the Hong Kong Companies Ordinance.

The Company's auditor has reported on those financial statements. The auditor's report was a disclaimer of opinion; and contain a statement under sections 407 (3) of the Hong Kong Companies Ordinance.

2. PRINCIPAL ACCOUNTING POLICIES

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

Other than changes in accounting policies resulting from application of new and amendments to HKFRSs, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2019 are the same as those presented in the Group's annual financial statements for the year ended 31 December 2018.

Application of new and amendments to HKFRSs

In the current interim period, the Group has applied, for the first time, the following new and amendments to HKFRSs issued by the HKICPA which are mandatory effective for the annual period beginning on or after 1 January 2019 for the preparation of the Group's condensed consolidated financial statements:

HKFRS 16	Leases
HK(IFRIC) – Int 23	Uncertainty over Income Tax Treatments
Amendments to HKFRS 9	Prepayment Features with Negative Compensation
Amendments to HKAS 19	Plan Amendment, Curtailment or Settlement
Amendments to HKAS 28	Long-term Interests in Associates and Joint Ventures
Amendments to HKFRSs	Annual Improvements to HKFRSs 2015-2017 Cycle

Except as described below, the application of the new and amendments to HKFRSs in the current period has had no material impact on the Group's financial performance and positions for the current and prior periods and/or on the disclosures set out in these condensed consolidated financial statements.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases

The Group has applied HKFRS 16 for the first time in the current interim period. HKFRS 16 superseded HKAS 17 Leases ("HKAS 17"), and the related interpretations.

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16

The Group applied the following accounting policies in accordance with the transition provisions of HKFRS 16.

Definition of a lease

A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration.

The Group assesses whether a contract is or contains a lease based on the definition under HKFRS 16 at inception or modification date. Such contract will not be reassessed unless the terms and conditions of the contract are subsequently changed.

As a lessee

Short-term leases

The Group applies the short-term lease recognition exemption to leases that have a lease term of 12 months or less from the commencement date and do not contain a purchase option. It also applies the recognition exemption for lease of low-value assets. Lease payments on short-term leases and leases of low-value assets are recognised as expense on a straight-line basis over the lease term.

Right-of-use assets

Except for short-term leases and leases of low-value assets, the Group recognises right-of-use assets at the commencement date of the lease (i.e. the date the underlying asset is available for use). Right-of-use assets are measured at cost, less any accumulated depreciation and impairment losses, and adjusted for any remeasurement of lease liabilities.

The cost of right-of-use asset includes:

- the amount of the initial measurement of the lease liability;
- any lease payments made at or before the commencement date, less any lease incentives received;
- any initial direct costs incurred by the Group; and
- an estimate of costs to be incurred by the Group in dismantling and removing the underlying assets, restoring the site on which it is located or restoring the underlying asset to the condition required by the terms and conditions of the lease, unless those costs are incurred to produce inventories.

Right-of-use assets in which the Group is reasonably certain to obtain ownership of the underlying leased assets at the end of the lease term is depreciated from commencement date to the end of the useful life. Otherwise, right-of-use assets are depreciated on a straight-line basis over the shorter of its estimated useful life and the lease term.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.1 Key changes in accounting policies resulting from application of HKFRS 16 *(Continued)*

As a lessee (Continued)

Refundable rental deposits

Refundable rental deposits paid are accounted under HKFRS 9 *Financial Instruments* ("HKFRS 9") and initially measured at fair value. Adjustments to fair value at initial recognition are considered as additional lease payments and included in the cost of right-of-use assets.

Lease liabilities

At the commencement date of a lease, the Group recognises and measures the lease liability at the present value of lease payments that are unpaid at that date. In calculating the present value of lease payments, the Group uses the incremental borrowing rate at the lease commencement date if the interest rate implicit in the lease is not readily determinable.

The lease payments include fixed payments (including in-substance fixed payments) less any lease incentives receivable.

After the commencement date, lease liabilities are adjusted by interest accretion and lease payments.

The Group remeasures lease liabilities (and makes a corresponding adjustment to the related right-of-use assets) whenever:

- the lease term has changed or there is a change in the assessment of exercise of a purchase option, in which case the related lease liability is remeasured by discounting the revised lease payments using a revised discount rate at the date of reassessment.

- the lease payments change due to changes in market rental rates following a market rent review/expected payment under a guaranteed residual value, in which cases the related lease liability is remeasured by discounting the revised lease payments using the initial discount rate.

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16

The Group has applied HKFRS 16 retrospectively with the cumulative effect recognised at the date of initial application, 1 January 2019. Any difference at the date of initial application is recognised in the opening retained profits and comparative information has not been restated.

Based on the allowed practical expedients under HKFRS 16, the Group has elected not to apply the requirements of HKFRS 16 in respect of recognition of lease liability and right-of-use assets to leases for which the lease term ends within twelve months of the date of initial application.

On transition, the Group has made the following adjustments upon application of HKFRS 16:

The Group recognised lease liabilities of approximately HK$719,000 and right-of-use assets of approximately HK$816,000 at 1 January 2019.

When recognising the lease liabilities for leases previously classified as operating leases, the Group has applied incremental borrowing rates of the relevant group entities at the date of initial application. The weighted average lessee's incremental borrowing rate applied to the lease liabilities on 1 January 2019 was 8%.

2. PRINCIPAL ACCOUNTING POLICIES *(Continued)*

Application of new and amendments to HKFRSs *(Continued)*

2.1 Impacts and changes in accounting policies of application on HKFRS 16 Leases *(Continued)*

2.1.2 Transition and summary of effects arising from initial application of HKFRS 16 *(Continued)*

	At 1 January 2019 *HK$'000*
Operating lease commitments disclosed as at 31 December 2018	**3,056**
Lease liabilities discounted at relevant incremental borrowing rates	**3,002**
Less: Recognition exemption – short-term leases	**(2,283)**
Lease liabilities recognised as at 1 January 2019	**719**
Analysed as:	
Current lease liabilities	**399**
Non-current lease liabilities	**320**
	719

As a result of initially applying HKFRS 16, in relation to the leases that were previously classified as operating leases and finance leases, the Group recognised approximately HK$614,000 of right-of-use assets and approximately HK$523,000 of lease liabilities as at 30 June 2019.

Also, in relation to those leases under HKFRS 16, the Group has recognised depreciation and finance costs, instead of operating lease expense. During the six months ended 30 June 2019, the Group recognised approximately HK$202,000 of depreciation charges and approximately HK$25,000 of finance costs from these leases.

New and amendments to HKFRSs issued but not yet effective

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

HKFRS 17	Insurance Contracts[2]
Amendments to HKFRS 3	Definition of a Business[4]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
Amendments to HKAS 1 and HKAS 8	Definition of Material[1]

1 Effective for annual periods beginning on or after 1 January 2020
2 Effective for annual periods beginning on or after 1 January 2021
3 Effective date to be determined
4 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 condensed consolidated financial statements.

3. REVENUE AND SEGMENT INFORMATION

(a) Revenue

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

	Unaudited Six months ended 30 June 2019 HK$'000	30 June 2018 HK$'000
Sale of electronic components	**4,366**	4,804
Sale of coalbed methane products	**–**	532
Interest income from money lending	**–**	47
	4,366	5,383

(b) Segment information

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

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

(i) Segment results

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

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

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

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results *(Continued)*

Information regarding the Group's reportable segments as provided to the Group's most senior executive management for the purposes of resource allocation and assessment of segment performance for the six months ended 30 June 2019 and 2018 is set out below:

Six months ended 30 June 2019 (Unaudited)

	Electronic components *HK$'000*	Coalbed methane *HK$'000*	Treasury *HK$'000*	Total *HK$'000*
Recognised at a point in time	4,366	–	–	4,366
Recognised over time	–	–	–	–
Reportable segment revenue from external customers	4,366	–	–	4,366
Inter-segment revenue	–	–	–	–
Reportable segment revenue	**4,366**	**–**	**–**	**4,366**
Reportable segment results	**(444)**	**(409,605)**	**6,767**	**(403,282)**
Amortisation of production sharing contract	–	13,411	–	13,411
Depreciation of property, plant and equipment and right-of-use assets	–	4,606	216	4,822
Gain on fair value change of convertible notes – embedded derivatives	–	(48,295)	–	(48,295)
Interest expenses	–	21,131	25	21,156
Impairment loss on production sharing contract	–	413,598	–	413,598
Loss on disposal of financial assets at fair value through profit or loss	–	–	1,261	1,261
Loss on disposal of property, plant and equipment	–	55	–	55
Net gain on revaluation of financial assets at fair value through profit or loss	–	–	(5,864)	(5,864)
Write back of other payables	–	–	(3,850)	(3,850)

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(i) Segment results (Continued)

Six months ended 30 June 2018 (Unaudited)

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

There was no inter-segment sales for both periods.

3. REVENUE AND SEGMENT INFORMATION *(Continued)*

(b) Segment information *(Continued)*

(ii) Reconciliations of reportable segment profit or loss

	Unaudited Six months ended 30 June 2019 HK$'000	30 June 2018 HK$'000
Reportable segment loss	**(403,282)**	(64,482)
Other income	**13**	76
Other gains and losses	**(356)**	(2,760)
Unallocated head office and corporate expenses	**(8,793)**	(9,187)
Interest expenses	**(3,487)**	(2,793)
Consolidated loss before tax	**(415,905)**	(79,146)

4. OTHER GAINS AND LOSSES

	Unaudited Six months ended 30 June 2019 HK$'000	30 June 2018 HK$'000
Gain on fair value change of convertible notes – embedded derivatives	**48,295**	1,336
Loss on disposal of property, plant and equipment	**(55)**	(45)
Loss on disposal of financial assets at fair value through profit or loss	**(1,261)**	(725)
Net gain (loss) on revaluation of financial assets at fair value through profit or loss	**5,864**	(5,654)
Net foreign exchange loss	**(356)**	(2,823)
Write back of other payables	**3,850**	–
	56,337	(7,911)

5. FINANCE COSTS

	Unaudited Six months ended 30 June 2019 HK$'000	30 June 2018 HK$'000
Imputed interest on convertible notes	**21,131**	18,526
Imputed interest on bonds	**2,485**	2,605
Interest on promissory notes	**1,002**	188
Interest on lease liabilities	**25**	–
	24,643	21,319

6. LOSS BEFORE TAX

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

	Unaudited Six months ended 30 June 2019 HK$'000	30 June 2018 HK$'000
Staff costs (including directors' emoluments)		
Salaries, wages and other benefits	**8,202**	11,602
Contributions to defined contribution retirement plans	**599**	993
Total staff costs	**8,801**	12,595
Amortisation of production sharing contract	**13,411**	26,606
Cost of inventories recognised as expenses	**3,885**	4,849
Depreciation of property, plant and equipment and right-of-use assets	**4,936**	5,762
Impairment loss on production sharing contract	**413,598**	–
Loss on disposal of property, plant and equipment	**55**	45
Operating lease charges in respect of land and buildings	**1,163**	1,335
Reversal of impairment losses on trade receivables	**–**	(90)
Write back of other payables	**(3,850)**	–
Write-down of inventories	**–**	4

7. INCOME TAX

	Unaudited Six months ended 30 June 2019 *HK$'000*	 30 June 2018 *HK$'000*
Current tax		
People's Republic of China (the "PRC")		
Enterprise Income Tax	**41**	64
Deferred tax		
Current period *(note (c))*	**(106,000)**	(7,652)
Income tax credit	**(105,959)**	(7,588)

Notes:

(a) 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 condensed consolidated financial statements. Thus, Hong Kong Profits Tax is calculated at 16.5% of the estimated assessable profit for both period.

(b) The Group's subsidiaries in the PRC are subject to PRC Enterprise Income Tax rate of 25% (2018: 25%) for the six months ended 30 June 2019.

(c) Deferred tax arising from the reversal of the temporary difference related to revaluation and disposal of financial assets at fair value through profit or loss amounted to HK$752,000 (2018: HK$1,000,000) as referred to in note 13 to the condensed consolidated financial statements; and the reversal of the temporary difference arising from the amortisation of and impairment loss on the intangible assets in respect of production sharing contract amounted to HK$106,752,000 (2018: HK$6,652,000) as referred to in note 12 to the condensed consolidated financial statements.

8. DIVIDEND

No dividend was paid, declared or proposed during the interim period (2018: Nil). The directors of the Company have determined that no dividend will be paid in respect of the interim period (2018: Nil).

9. 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:

	Unaudited Six months ended	
	30 June 2019	30 June 2018
	HK$'000	*HK$'000*
Loss for the purpose of basic loss per share		
Loss for the period attributable to owners of the Company	**(309,807)**	(71,419)
Weighted average number of ordinary shares for the purpose of basic loss per share at 30 June	**479,184,617**	479,112,198

(b) Diluted loss per share

No adjustment was made in calculating diluted loss per share for both periods 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.

10. PROPERTY, PLANT AND EQUIPMENT

	Property, plant and equipment *HK$'000*
Carrying amount as at 1 January 2018	99,208
Exchange adjustment	(5,181)
Additions	10,906
Disposal	(304)
Depreciation	(10,428)
Carrying amount as at 31 December 2018 and 1 January 2019 (Audited)	94,201
Exchange adjustment	5
Additions	158
Disposal	(88)
Depreciation	(4,734)
Carrying amount as at 30 June 2019 (Unaudited) *(note)*	89,542

Note:

As at 30 June 2019, it includes approximately HK$38,137,000 of construction in progress (31 December 2018: approximately HK$38,160,000) for the CBM business under the production sharing contract.

11. RIGHT-OF-USE ASSETS

	Office *HK$'000*
Initial recognition as at 1 January 2019	816
Depreciation	(202)
Carrying amount as at 30 June 2019 (Unaudited)	614

12. INTANGIBLE ASSETS

	Production sharing contract ("PSC") *HK$'000*
Cost	
At 1 January 2018	3,963,964
Exchange adjustment	(205,422)
At 31 December 2018 and 1 January 2019	3,758,542
Exchange adjustment	(2,716)
At 30 June 2019	3,755,826
Accumulated amortisation and impairment	
At 1 January 2018	2,878,078
Charge for the year	51,228
Impairment loss	454,192
Exchange adjustment	(151,152)
At 31 December 2018 and 1 January 2019	3,232,346
Charge for the period	13,411
Impairment loss	413,598
Exchange adjustment	(2,546)
At 30 June 2019	3,656,809
Carrying amount	
At 30 June 2019 (Unaudited)	99,017
At 31 December 2018 (Audited)	526,196

The PSC is amortised on straight-line basis over the remaining contract terms of 19.4 years (31 December 2018: 19.9 years) of the PSC.

12. INTANGIBLE ASSETS *(Continued)*

Note:

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	18.5 years
Discount rate (pre-tax)	18.89%

The calculation is based on the pre-tax cash flow projections of the financial budgets approved by management covering a 18.5-year period and a pre-tax discount rate of 18.89% (31 December 2018: 19.23%), 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 30 June 2019 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 and the scaledown 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$413,598,000 (31 December 2018: HK$454,192,000) has been recognised in the condensed consolidated statement of profit or loss for the six months ended 30 June 2019.

13. FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Non-current		
Club debenture at fair value through profit or loss	**1,000**	1,000
Current		
Listed investments in Hong Kong at fair value through profit or loss	**16,535**	10,010

14. TRADE AND OTHER RECEIVABLES

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Trade receivables *(note (a))*	**15,966**	15,293
Less: Allowance for doubtful debts *(note (b))*	**(14,472)**	(14,472)
	1,494	821
Other receivables	**1,681**	824
Other receivable from escrow agent *(note (c))*	**–**	50,000
Deposits and prepayments	**793**	1,395
	2,474	52,219
	3,968	53,040

14. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes:

(a) Ageing analysis of trade receivables

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

	Unaudited 30 June 2019 ***HK$'000***	Audited 31 December 2018 *HK$'000*
0-30 days	**672**	581
31-90 days	**822**	240
91-365 days	**–**	–
Over 365 days	**14,472**	14,472
	15,966	15,293
Less: Allowance for doubtful debts	**(14,472)**	(14,472)
	1,494	821

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

14. TRADE AND OTHER RECEIVABLES *(Continued)*

Notes: (Continued)

(b) Allowance for doubtful debts

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

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

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
At 1 January	**14,472**	14,562
Reversal of impairment losses on trade receivables	**–**	(90)
	14,472	14,472

At 30 June 2019, the Group's trade receivables of HK$14,472,000 (31 December 2018: HK$14,472,000) were individually determined to be impaired. The individually impaired receivables related to customers that were in financial difficulties and management assessed that it is highly unlikely that the receivables can be recovered. The Group does not hold any collateral over the trade receivable balances.

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

(c) During the period, the Group and the escrow agent have resolved the disputed matter for the settlement amount of HK$50,000,000. The other receivable from escrow agent as at 31 December 2018 has been fully settled.

15. OTHER BORROWING, UNSECURED

Other borrowing, relating to the CBM business under the PSC (note 12) and payable to an independent third party, is unsecured, interest-free and with no fixed repayment terms.

16. TRADE AND OTHER PAYABLES

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Trade payables *(note (a))*	**1,963**	1,383
Other payables *(note (b))*	**27,766**	35,129
Amounts due to non-controlling interests of a subsidiary *(note 26)*	**16,342**	16,072
Accrued expenses	**9,271**	10,301
	55,342	62,885
Analysed for reporting purpose as:		
Non-current liabilities	**16,342**	16,072
Current liabilities	**39,000**	46,813
Total	**55,342**	62,885

Notes:

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

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Current-within 1 month	**632**	510
More than 1 month but within 3 months	**1,244**	836
More than 3 months but within 6 months	**38**	7
More than 6 months	**49**	30
	1,963	1,383

(b) Other payables include approximately RMB11,806,000 (equivalent to approximately HK$13,437,000) of engineering fees payable to creditors in the PRC.

17. BONDS

	Unlisted bond ("Bond I") *HK$'000*	Unlisted bond ("Bond II") *HK$'000* *(note (a))*	Unlisted bond ("Bond III") *HK$'000* *(note (b))*	Unlisted bond ("Bond IV") *HK$'000* *(note (c))*	Total *HK$'000*
At 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 and 1 January 2019 (Audited)	**–**	**980**	**10,973**	**39,489**	**51,442**
Interest charge	**–**	**47**	**394**	**2,044**	**2,485**
Less: Interest paid	**–**	**–**	**(382)**	**(1,220)**	**(1,602)**
At 30 June 2019 (Unaudited)	**–**	**1,027**	**10,985**	**40,313**	**52,325**
Analysed for reporting purpose as:					
At 30 June 2019 (Unaudited)					
Non-current liabilities	**–**	**–**	**9,986**	**–**	**9,986**
Current liabilities	**–**	**1,027**	**999**	**40,313**	**42,339**
Total	**–**	**1,027**	**10,985**	**40,313**	**52,325**
At 31 December 2018 (Audited)					
Non-current liabilities	–	–	–	4,777	4,777
Current liabilities	–	980	10,973	34,712	46,665
Total	–	980	10,973	39,489	51,442

17. BONDS *(Continued)*

Notes:

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

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

Imputed interest expense on Bond II was calculated using effective interest method with an effective interest rate of 9.59% (2018: 9.59%) per annum.

(b) 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.

In March 2019, the maturity date of Bond III with an aggregate principal amount of HK$10,000,000 was extended from third anniversary to sixth anniversary of the date of issue.

Imputed interest expense on Bond III with an aggregate principal amount of HK$1,000,000 was calculated using effective interest method with an effective interest rate of 7.38% (2018: 7.38%) per annum.

Imputed interest expense on Bond III with an aggregate principal amount of HK$10,000,000 was calculated using effective interest method with an effective interest rate of 7.04% (2018: 7.38%) per annum after extension.

(c) 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% (2018: 10.44%) per annum.

18. CONVERTIBLE NOTES, UNSECURED

On 20 March 2015, the Company issued convertible notes with principal amount of HK$637,000,000 ("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 holder 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 21 to the condensed consolidated financial statements.

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.

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.

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

The following key inputs and data were applied to the binomial lattice model for the derivatives embedded in the New Convertible Notes at 30 June 2019 and 31 December 2018.

	At 30/6/2019	At 31/12/2018
Share price	**HK$0.135**	HK$0.17
Conversion price	**HK$0.16**	HK$0.16
Risk-free rate	**1.53%**	1.71%
Expected dividend yield	**Nil**	Nil
Volatility	**80.86%**	72.06%

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

Old Convertible Notes due on 31 December 2018

	Embedded derivatives portion *HK$'000*	**Liability portion** *HK$'000*	**Total** *HK$'000*
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 1 January 2018 (Audited)	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	–	–	–

18. CONVERTIBLE NOTES, UNSECURED *(Continued)*

New Convertible Notes due on 31 December 2021

	Embedded derivatives portion *HK$'000*	Liability portion *HK$'000*	Total *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 and 1 January 2019 (Audited)	142,598	231,831	374,429
Imputed interest charged to condensed consolidated statement of profit or loss	–	21,131	21,131
Decrease in fair value credited to condensed consolidated statement of profit or loss	(48,295)	–	(48,295)
Interest paid	–	(3,699)	(3,699)
Carrying amount of convertible notes (with principal amount of HK$365,000,000) as at 30 June 2019 (Unaudited)	94,303	249,263	343,566

At 30 June 2019, New Convertible Notes with principal amount of HK$365,000,000 remained outstanding.

19. DEFERRED TAX LIABILITIES

	Fair value adjustments of financial assets at fair value through profit or loss	Fair value adjustments on PSC arising from the business combination *(note 12)*	Total
	HK$'000	*HK$'000*	*HK$'000*
At 1 January 2018	(1,271)	271,470	270,199
Credit to consolidated statement of profit or loss	(2,534)	(126,355)	(128,889)
Exchange adjustment	–	(13,567)	(13,567)
At 31 December 2018 and 1 January 2019 (Audited)	(3,805)	131,548	127,743
(Charge) credit to condensed consolidated statement of profit or loss	752	(106,752)	(106,000)
Exchange adjustment	–	(42)	(42)
At 30 June 2019 (Unaudited)	(3,053)	24,754	21,701

Note:

At 30 June 2019, the recognised deferred tax liabilities of PSC represented the tax effect of the fair value adjustments on the business combination completed in 2008.

20. PROMISSORY NOTES

	Promissory Note I *HK$'000* *(note (a))*	Promissory Note II *HK$'000* *(note (b))*	Promissory Note III *HK$'000* *(note (c))*	Total *HK$'000*
Issue of promissory notes	6,000	7,500	5,000	18,500
Interest charge	421	307	12	740
At 31 December 2018 and 1 January 2019 (Audited)	6,421	7,807	5,012	19,240
Interest charge	358	444	200	1,002
Less: Interest paid	(531)	(446)	–	(977)
At 30 June 2019 (Unaudited)	6,248	7,805	5,212	19,265

	Unaudited 30 June 2019 ***HK$'000***	Audited 31 December 2018 *HK$'000*
Analysed for reporting purpose as:		
Non-current liabilities	**14,053**	5,012
Current liabilities	**5,212**	14,228
Total	**19,265**	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. On 25 March 2019, the maturity date of Promissory Note I was extended to 30 September 2020 and on that day, the interest rate was changed to 15% per annum payable in one lump sum on the maturity date.

(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. On 25 March 2019, the maturity date of Promissory Note II was extended to 30 September 2020 and on that day, the interest rate was changed to 15% per annum payable in one lump sum on the maturity date.

(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.

21. SHARE CAPITAL

	Number of ordinary shares	Share capital *HK$'000*
Issued and fully paid:		
At 1 January 2018	4,790,823,420	2,032,227
Issue of shares upon exercise of warrants *(note (a))*	1,022,756	95
Share consolidation *(note (b))*	(4,312,661,559)	–
At 31 December 2018 and 1 January 2019 (Audited) and 30 June 2019 (Unaudited)	479,184,617	2,032,322

Notes:

(a) Issue of shares upon exercise of warrants

During the period 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.

(b) 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.

22. COMMITMENTS

(a) Capital commitments

Capital commitments outstanding as at 30 June 2019 not provided for in the condensed consolidated financial statements were as follows:

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Production sharing contract:		
– Contracted but not provided for	**28,820**	17,820

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

(b) Operating lease commitments

At 30 June 2019, the total future minimum lease payments under non-cancellable operating leases are payable as follows:

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Within 1 year	**1,392**	2,179
After 1 year but within 5 years	**–**	877
	1,392	3,056

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.

23. LITIGATION

On 2 August 2019, Can-Elite received a statement of claim issued by Shandong Taishan Resource Exploration Company Limited ("Taishan") and filed with the Beijing Dongcheng District People's Court (the "Beijing Dongcheng Court") for alleged default in payment of outstanding engineering fees under agreement in an aggregate amount of RMB736,898 and all related interests and expenses; a hearing notification from the Beijing Dongcheng Court to attend a hearing on 7 August 2019; and a civil ruling issued by the Beijing Dongcheng Court dated 18 July 2019 pursuant to which, the bank accounts of Can-Elite shall be frozen up to the amount of RMB830,000 or other assets of equivalent value. As of the date, total amount at the banks of Can-Elite of RMB24,722.16 were frozen.

The directors of the Company are of the view that the litigation has no significant impact on the Group's financial position and its operating result for the period ended 30 June 2019 as the above payable amount has already been recorded in the condensed consolidated financial statements as at 30 June 2019.

24. 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.

25. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

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

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

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

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

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

	Level 1 *HK$'000*	**Level 2** *HK$'000*	**Level 3** *HK$'000*
30 June 2019			
Financial assets			
– Financial assets at fair value through profit or loss *(note 13)*	**16,535**	**–**	**1,000**
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 18)*	**–**	**–**	**94,303**

	Level 1 *HK$'000*	Level 2 *HK$'000*	Level 3 *HK$'000*
31 December 2018			
Financial assets			
– Financial assets at fair value through profit or loss *(note 13)*	10,010	–	1,000
Financial liabilities			
– Convertible notes-embedded derivatives, unsecured *(note 18)*	–	–	142,598

During the six months ended 30 June 2019, there were no transfers between instruments in Level 1 and Level 2, or transfer into or out of Level 3 (2018: Nil). The Group's policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

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

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

Information about Level 1 fair value measurements

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

Information about Level 3 fair value measurements

The fair value of conversion option embedded in convertible notes is determined using binomial lattice model and the significant unobservable input used in the fair value measurement is credit spread. The fair value measurement is positively correlated to the credit spread. As at 30 June 2019, the credit spread used in the valuation is 18.48%, 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$7,374,000/HK$7,865,000 (31 December 2018: increased/decreased the Group's loss by approximately HK$9,929,000/HK$10,574,000).

The movements during the period in the balances of the Level 3 fair value measurement for the conversion option embedded in convertible notes are disclosed in note 18 to the condensed consolidated financial statements. Fair value gain on conversion option embedded in convertible notes is credited to the condensed consolidated statement of profit or loss. Of the total gains and losses for the period in the profit or loss, fair value gain of HK$48,295,000 (2018: HK$1,336,000) was related to conversion option embedded in convertible notes for the reporting period. The fair value of the club debentures was estimated by the directors of the Company with reference to the expected value to be realised.

Fair value of the Group's financial assets and financial liabilities that are not measured 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.

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

26. RELATED PARTY TRANSACTIONS

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

Key management personnel compensation

	Unaudited Six months ended 30 June 2019 *HK$'000*	30 June 2018 *HK$'000*
Salaries, allowance and other benefits in kind	**2,109**	3,053
Discretionary bonus	**–**	158
Retirement scheme contributions	**43**	46
	2,152	3,257

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

	Unaudited 30 June 2019 *HK$'000*	Audited 31 December 2018 *HK$'000*
Amounts due to non-controlling interests of a subsidiary *(note 16)*	**16,342**	16,072

The amounts due to non-controlling interests of a subsidiary are unsecured, interest-free and not be demanded for repayment in the next twelve months from 30 June 2019.

27. EVENTS AFTER THE REPORTING PERIOD

Pursuant to the announcement of the Company dated 13 June 2019, the Company announced to raise funds by way of rights issue of its shares on the basis of one rights share for every two shares held on the record date at the subscription price of HK$0.12 per rights share. The estimated net proceeds from the rights issue is approximately HK$27,250,000, after deducting related expenses of approximately HK$1,500,000. The rights issue has not yet completed up to the date of approval of these condensed consolidated financial statements.

Pursuant to the announcement of the Company dated 13 June 2019, the Company announced to propose the bonus warrant issue to the shareholders whose names appear on the register of members of the Company on the warrant record date on the basis of one warrant for every five shares held on the warrant record date. The bonus warrant issue is subject to the shareholders' approval at the extraordinary general meeting to be held on 18 September 2019.