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# **IDG Energy**

## **IDG ENERGY INVESTMENT GROUP LIMITED**

### **IDG 能源投資集團有限公司\***

*(formerly known as “Shun Cheong Holdings Limited 順昌集團有限公司”)*

*(Incorporated in Bermuda with limited liability)*

**(Stock Code: 650)**

### **CHANGE IN USE OF PROCEEDS**

Reference is made to the circular of IDG Energy Investment Group Limited (formerly known as Shun Cheong Holdings Limited) (the “**Company**”) dated 29 June 2016 (the “**RTO Circular**”) in relation to, among others, the share subscription (the “**Subscription**”) and the convertible note subscription (the “**CN Subscription**”) of the Company and the use of proceeds from the Subscription and the CN Subscription (the “**Previous Proceeds**”). Reference is also made to the announcement of the Company dated 22 November 2016 (the “**Announcement**”) in relation to the proposed acquisition of certain oil and gas assets in the United States (the “**Proposed Acquisition**”). Unless otherwise defined, capitalized terms used herein shall have the same meanings as those defined in the RTO Circular and the Announcement.

### **CHANGE IN USE OF PROCEEDS**

For reasons set out in the paragraph below headed “Reasons for the Change in Use of Proceeds” of this announcement, the board of directors of the Company (the “**Board**”) has resolved to revise the allocation of part of the Previous Proceeds as follows:

	<b>Original allocation of the Previous Proceeds HK\$'000</b>	<b>Utilisation as at the date of this announcement HK\$'000</b>	<b>Remaining balance of the Previous Proceeds as at the date of this announcement HK\$'000</b>	<b>Revised allocation of the Previous Proceeds HK\$'000</b>	<b>Amount involved in the change of use of Previous Proceeds HK\$'000</b>
Payment of the transaction expenses	60,000	66,000	(6,000)	66,000	Increased by 6,000
Repayment of the consideration for the acquisition of the PRC Target	665,000	652,000	13,000	652,000	Decreased by 13,000
Repayment of debts and other liabilities	400,000	47,000	353,000	400,000	—
Development of Unit 2 and Unit 19 of Block 212 (based on the high case development plan)	800,000	20,000	780,000	800,000	—

\* For identification purposes only

	Original allocation of the Previous Proceeds HK\$'000	Utilisation as at the date of this announcement HK\$'000	Remaining balance of the Previous Proceeds as at the date of this announcement HK\$'000	Revised allocation of the Previous Proceeds HK\$'000	Amount involved in the change of use of Previous Proceeds HK\$'000
Further development of other areas in Block 212	450,000	—	450,000	—	Decreased by 450,000 (Note 1)
Working capital	165,000	18,000	147,000	161,000	Decreased by 4,000 (Note 2)
Acquisition and development of other oil and gas companies or projects	400,000	—	400,000	861,000	Increased by 461,000
<b>Total</b>	<b>2,940,000</b>	<b>803,000</b>	<b>2,137,000</b>	<b>2,940,000</b>	<b>—</b>

Notes:

- As disclosed in the paragraph below headed “Reasons for the Change in Use of Proceeds” of this announcement, the Company reasonably believes that the exploration work of other areas in Block 212 can be financed by the operating cash flows generated by the PRC Target based on its current forecast. Among the HK\$450 million, HK\$355 million will be reallocated for financing the Proposed Acquisition and the remaining HK\$95 million will be reallocated as the Group’s working capital to finance, among other things, the development of various exploration and/or development projects of the Group after the Proposed Acquisition.
- HK\$99 million out of the HK\$165 million originally intended for working capital will be used to finance the Proposed Acquisition. As stated in Note 1 above, a HK\$95 million will be reallocated as the Group’s working capital to finance, among other things, the development of various exploration and/or development projects of the Group after the Proposed Acquisition, making the revised allocation of the Previous Proceeds for working capital amount to a total of HK\$161 million, decreased by HK\$4 million as compared to the original HK\$165 million.

## REASONS FOR THE CHANGE IN USE OF PROCEEDS

The Group is principally engaged in the exploration, development and production of crude oil. Selectively making strategic acquisitions of oil assets overseas, as one of the pre-set business strategies of the Group, is an important driver for growth and enhancing shareholder value. The Board believes the recent relatively low crude oil commodity prices (as compared to commodity prices in 2012 to 2014) offer investors an attractive risk/return profile and diversification in the current environment and a counter-cyclical acquisition may provide a great opportunity to access world-class assets at a reasonable price.

The Proposed Acquisition, in the view of the Board, is an opportune investment for the Group to develop and expand its current principal business which is the exploration, development and production of crude oil. In addition, the Board expects that the Proposed Acquisition could allow the Group to widen its global footprint and develop a more diversified and balanced oil and gas business portfolio, expand its operational capabilities and elevate its profile and image as an international energy company, and will present the Group with favourable long term prospects, which is in line with the Group’s sustainable

corporate strategy to broaden its income stream and its mission and vision to become a leading global oil and gas assets holding and management company, with the goal of achieving stable, long-term and attractive returns for the Shareholders.

Taking into account the opportunity of the Proposed Acquisition, the actual utilization of the Previous Proceeds and the change of circumstances substantiating the original allocation of the Previous Proceeds, the Company, after careful study and consideration, proposed to use part of the unutilized Previous Proceeds to finance the Proposed Acquisition, i.e., HK\$461 million, with HK\$99 million from the portion of the Previous Proceeds for working capital, HK\$7 million from the savings after the transaction related payments for acquisition of the PRC Target and HK\$355 million from the portion of the Previous Proceeds for further development of other areas of Block 212. Details of the financing arrangements for the initial purchase price of the Proposed Acquisition are set out in the circular of the Company dated 9 March 2017.

The development plan of the key areas in Block 212 (i.e., Unit 2 and Unit 19) where the oil reserves and resources were confirmed in the independent technical report set out in Appendix VII to the RTO Circular is not affected as a result of the revised allocation of part of the Previous Proceeds. The Company is still planning to carry out exploration work of other areas in Block 212, as the Company reasonably believes that such exploration can be financed by the operating cash flows generated by the PRC Target based on its current forecast. The Company considers the revised allocation of part of the Previous Proceeds is commercially reasonable having considered that the Target Assets under the Proposed Acquisition are producing assets with room for further development while the exploration work in other areas in Block 212 presents more uncertainty and higher risk. Therefore, the Company considers it is in its best interests to reallocate the relevant part of the Previous Proceeds for financing the Proposed Acquisition, with a view to generating a more secured expected return, and to carry out the exploration work of other areas in Block 212 later based on the internally generated free cash flow. Also, the Company believes that the remaining portion of the Previous Proceeds for working capital, i.e., HK\$161 million, together with the internal funds of the Company, will be sufficient for the general day-to-day requirements of the Group.

The Board considers that the revised allocation of part of the Previous Proceeds is fair and reasonable, best fits the needs of the Group and is in the best interests of the Company and the Shareholders as a whole. The Board will, from time to time, assess and evaluate the business need of the Group and the optimal plan for allocation and deployment of the Group's financial resources to strengthen the efficiency and effectiveness of the use of the Previous Proceeds.

By order of the Board  
**IDG Energy Investment Group Limited**  
**WANG Jingbo**  
*Chairman and Chief Executive Officer*

Hong Kong, 8 March 2017

*As at the date hereof, the Board comprises seven Directors, of whom two are executive Directors, namely Mr. Wang Jingbo (Chairman and Chief Executive Officer), and Mr. Lee Khay Kok; two are non-executive Directors, namely Mr. Lin Dongliang and Mr. Shong Hugo; and three are independent non-executive Directors, namely Prof. Chen Zhiwu, Mr. Shi Cen, and Mr. Chau Shing Yim David.*