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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)

FINAL RESULTS FOR THE YEAR ENDED 31 MARCH 2017

The board (the “**Board**”) of directors (the “**Directors**”) of IDG Energy Investment Group Limited (the “**Company**”) is pleased to announce the consolidated results of the Company and its subsidiaries (collectively the “**Group**”) for the year ended 31 March 2017 together with the comparative figures for the previous year.

FINANCIAL SUMMARY

	Year ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
		(restated)
Revenue	76,779	110,812
Gross (loss)/profit	(3,105)	4,534
Loss for the year before deducting notional listing expense	(168,036)	(38,943)
Notional listing expense (Note 1)	(294,390)	–
Loss for the year	(462,426)	(38,943)
EBITDA	(392,795)	26,197
Adjusted EBITDA (Note 2)	(19,330)	26,197
Basic and diluted loss per share (HK\$ per share)	(0.33)	(0.04)

Note 1: The notional listing expense is a notional expense without any impact on the Group's net assets and cash flow. Please refer to Note 6 in “Notes to the Financial Information” for further details.

Note 2: Adjusted EBITDA refers to EBITDA adjusted to exclude non-recurring items, including the notional listing expense and related transaction costs in relation to the Transfer and the Transactions (collectively the “**Reverse Takeover Transaction**”) (as defined in the circular of the Company dated 29 June 2016 (the “**RTO Circular**”)) and the costs in relation to the proposed acquisition of the Target Assets (as defined in the circular of the Company dated 9 March 2017).

* For identification purposes only

OPERATING SUMMARY

	Year ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Gross production volume (<i>barrels</i>)	291,809	400,184
Gross sales volume (<i>barrels</i>)	292,287	396,981
Net sales volume (<i>barrels</i>)	233,830	317,585
Average unit selling price (<i>HK\$ per barrel</i>) (<i>Note 1</i>)	328	349
Average daily gross production volume (<i>barrels</i>)	811	1,112
Average unit production cost before depreciation and amortisation (<i>HK\$ per barrel</i>) (<i>Note 1</i>)	139	141
Average unit production cost (<i>HK\$ per barrel</i>) (<i>Note 1</i>)	272	271
Wells drilled during the year		
— Dry holes (<i>unit</i>)	1	—
— Oil producers (<i>unit</i>) (<i>Note 2</i>)	6	—
Fracturing workover during the year (<i>unit</i>)	13	20

Notes:

- (1) The Group's gross production volume was used in the calculation of average unit production cost and average unit production cost before depreciation and amortisation which includes the share of 20% production volume of crude oil to 陝西延長石油(集團)有限責任公司(延長油礦管理局) (Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau)*) ("Yanchang"). The average unit selling price was calculated using the Group's net sales amount and net sales volume which exclude Yanchang's 20% share in sales.
- (2) During the year ended 31 March 2017, the Group had successfully drilled 6 wells, of which, as at 31 March 2017, 3 wells had been completed and the remaining 3 were pending for completion.

FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	Note	Year ended 31 March	
		2017 HK\$'000	2016 HK\$'000 (restated) (note 2)
Revenue	3	76,779	110,812
Cost of sales		<u>(79,884)</u>	<u>(106,278)</u>
Gross (loss)/profit		(3,105)	4,534
Administrative expenses		(45,333)	(21,286)
Taxes other than income tax	4	(5,358)	(7,717)
Exploration expenses, including dry holes	5	(19,215)	(1,422)
Listing expense and related transaction costs	6	<u>(360,620)</u>	<u>–</u>
Loss from operations		<u>(433,631)</u>	<u>(25,891)</u>
Finance income		1,161	138
Finance costs		<u>(18,149)</u>	<u>(8,883)</u>
Net finance costs	7	<u>(16,988)</u>	<u>(8,745)</u>
Loss before taxation		(450,619)	(34,636)
Income tax	8	<u>(11,807)</u>	<u>(4,307)</u>
Loss for the year		<u>(462,426)</u>	<u>(38,943)</u>
Loss per share			
Basic and diluted	9	<u>HK\$(0.33)</u>	<u>HK\$(0.04)</u>

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

FOR THE YEAR ENDED 31 MARCH 2017

(Expressed in Hong Kong dollars)

	<i>Note</i>	Year ended 31 March	
		2017	2016
		HK\$'000	HK\$'000
			<i>(restated)</i>
			<i>(note 2)</i>
Loss for the year		(462,426)	(38,943)
Other comprehensive income for the year (after tax and reclassification adjustments)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of:			
— financial statements of overseas subsidiaries		(17,572)	4,831
Other comprehensive income for the year		(17,572)	4,831
Total comprehensive income for the year		(479,998)	(34,112)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(Expressed in Hong Kong dollars)

	<i>Note</i>	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated) (note 2)	At 1 April 2015 HK\$'000 (restated)
Non-current assets				
Property, plant and equipment		513,241	571,857	652,498
Construction in progress		4,792	1,502	4,290
Intangible assets		27,051	29,664	32,424
Lease prepayments		10,268	11,248	12,156
Other non-current assets		33,044	40,290	31,881
Deferred tax assets		–	–	2,220
		<u>588,396</u>	<u>654,561</u>	<u>735,469</u>
Current assets				
Inventories		4,060	5,765	5,075
Trade receivables	<i>10</i>	49,368	53,719	50,320
Other receivables	<i>10</i>	1,063,053	24,266	95,389
Current tax recoverable		–	26,403	–
Cash and cash equivalents		1,134,521	15,266	7,601
		<u>2,251,002</u>	<u>125,419</u>	<u>158,385</u>
Current liabilities				
Trade and other payables	<i>11</i>	272,893	320,560	533,277
Bank and other borrowings	<i>12</i>	101,375	108,011	244,993
		<u>374,268</u>	<u>428,571</u>	<u>778,270</u>
Net current assets/(liabilities)		<u>1,876,734</u>	<u>(303,152)</u>	<u>(619,885)</u>
Total assets less current liabilities		2,465,130	351,409	115,584

	<i>Note</i>	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated) (note 2)	At 1 April 2015 HK\$'000 (restated)
Non-current liabilities				
Convertible bonds	<i>13</i>	116,541	–	–
Convertible note	<i>14</i>	222,615	–	–
Deferred tax liabilities		13,493	2,087	–
Provisions		35,117	35,771	37,912
		<u>387,766</u>	<u>37,858</u>	<u>37,912</u>
NET ASSETS		<u><u>2,077,364</u></u>	<u><u>313,551</u></u>	<u><u>77,672</u></u>
CAPITAL AND RESERVES				
Share capital	<i>15(b)</i>	43,646	3,473	3,473
Reserves		2,033,718	310,078	74,199
TOTAL EQUITY		<u><u>2,077,364</u></u>	<u><u>313,551</u></u>	<u><u>77,672</u></u>

NOTES TO THE FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE INFORMATION

IDG Energy Investment Group Limited (formerly known as Shun Cheong Holdings Limited) (the “**Company**”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”). The Company’s registered office is located at Clarendon House, 2 Church Street, Hamilton HM 11, Bermuda and its head office and principal place of business is located at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong.

Pursuant to a special resolution in relation to the change of company name passing at the special general meeting of the Company on 10 January 2017, the name of the Company was changed from Shun Cheong Holdings Limited to IDG Energy Investment Group Limited with effect from 16 January 2017.

As a result of the Reverse Takeover Transaction (as defined in note 2(b)), the Company and its subsidiaries (the “**Group**”) have ceased its hotel and restaurant operations and have become principally engaged in the exploration, development, production and sale of crude oil in the People’s Republic of China (“**PRC**”). The Group entered into an exploration and production cooperation contract (“**EPCC**”) with 陝西延長石油(集團)有限責任公司(延長油礦管理局) (Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau)*) (“**Yanchang**”) in July 2010. The EPCC gives the Group the right to explore, develop, produce and sell the crude oil extracted from the two blocks (Block 212 and Block 378) located at Xilin Gol League, Inner Mongolia (the “**Area**”). Pursuant to the EPCC, all the capital expenditures and operation costs in relation to the Area shall be borne by the Group and the revenue generated from the sales of crude oil extracted from the two blocks shall be shared between the Group and Yanchang in the proportion of 80% and 20% respectively. The Group commenced production in Block 212 during 2010.

Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted by the Ministry of Land and Resources of the PRC (“**MOLR**”) to it. The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2019, and the current exploration permit of Yanchang in respect of Block 378 will expire on 9 November 2017. The EPCC was renewed in July 2012, June 2015 and February 2016 respectively and the expiry date of the EPCC is extended to 30 June 2018. Current production and development in Block 212 rely upon the exploration permit held by Yanchang for Block 212 and Yanchang’s successful application of the production permit in relation to the relevant areas within Block 212. Yanchang is in the process of applying to the MOLR for a production permit for Block 212. Currently, MOLR is still reviewing Yanchang’s application, the expert review of overall development plan has already been approved by MOLR. Based on legal advice, subject to the fulfilment of the relevant terms of the EPCC by the Group, Yanchang is obliged to renew the EPCC with the Group with reference to the effective period of the production permit (to be obtained by Yanchang), which is usually 20 years and shall be renewable upon expiration of the initial effective period.

2 SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

This financial information has been prepared in accordance with all applicable Hong Kong Financial Reporting Standards (HKFRSs), which collective term includes all applicable individual Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards (HKASs) and Interpretations issued by the Hong Kong Institute of Certified Public Accountants (HKICPA), accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. This financial information also comply with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited. Significant accounting policies adopted by the Group are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2(c) provides information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in this financial information.

(b) Basis of preparation

On 29 July 2016 (the “**Completion Date**”), the following transactions (collectively referred to as “**Reverse Takeover Transaction**”) were completed. The details of the Reverse Takeover Transaction are set out in the Company’s circulars dated 29 June 2016 and 4 August 2016 and the Company’s announcements dated 29 July 2016 and 26 August 2016.

- Pursuant to a sale and purchase agreement, Titan Gas Technology Investment Limited (“**Titan Gas**”) acquired 175,000,000 ordinary shares of the Company held by Upsky Enterprises Limited (“**Upsky**”) and the Company’s convertible bonds with an aggregate principal amount of HK\$96,833,000 held by Tanisca Investments Limited (“**Tanisca**”). Upsky was the Company’s former ultimate holding company. Upsky and Tanisca are ultimately controlled by Mr. Mo Tianquan, the ultimate beneficial owner of Upsky.
- Pursuant to a subscription agreement, a total of 4,017,323,774 subscription shares were allotted and issued, comprising (i) 1,269,414,575 ordinary shares at a subscription price of HK\$0.6696 each; (ii) the tranche 1 (“**Tranche 1**”) preferred shares of 1,373,954,600 preferred shares at a subscription prices of HK\$0.6696 each; and (iii) the tranche 2 (“**Tranche 2**”) preferred shares of 1,373,954,599 preferred shares at a subscription prices of HK\$0.6696 each. The 2,747,909,199 preferred shares of the Company issued pursuant to the subscription agreement are non-voting and convertible into 2,747,909,199 new ordinary shares.
- Pursuant to an acquisition agreement, the Company acquired the entire equity interest of Xilin Gol League Hongbo Mining Development Company Limited 錫林郭勒盟宏博礦業開發有限公司 (“**Hongbo Mining**”), a limited liability company established in the PRC, at a consideration of RMB558,880,000 (equivalent to HK\$652,211,000).
- Pursuant to a convertible note subscription agreement, the Company issued the convertible note in an aggregate principal amount of HK\$250,000,000 which is convertible into 373,357,228 ordinary shares at a conversion price of HK\$0.6696 per share.
- Pursuant to a divestment agreement, the Company sold to Upsky the entire interests in the two wholly-owned subsidiaries, namely Aykens Holdings Limited and Hopland Enterprises Limited (collectively the “**Divestment Group**”), the aggregate amount of net receivables owed by the Divestment Group to the Company and the shares of SouFun Holdings Limited held by the Company at a total consideration of HK\$1.

Although the Reverse Takeover Transaction has been structured such that the Company acquired the entire equity interest of Hongbo Mining, Titan Gas became the majority shareholder of the combined group as a result. In addition, as the Company divested its original business as part of the Reverse Takeover Transaction, the overall transaction does not constitute a business combination in accordance with HKFRS 3 *Business Combinations*. Instead, Hongbo Mining was deemed to have issued shares to acquire the identifiable net liabilities and the listing status of the Company in accordance with HKFRS 2 *Share-based Payment*.

Accordingly, the consolidated financial information has been presented as a continuation of the financial information of Hongbo Mining, such that:

- (i) the assets and liabilities of Hongbo Mining were recognised and measured at their carrying amounts;
- (ii) the identifiable assets and liabilities of the Company were recognised and measured initially at their fair value on the Completion Date; and
- (iii) the comparative information presented in the financial information was restated to be that of Hongbo Mining adjusted to reflect the Company's capital structure.

In addition, the difference in the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of the Company's identifiable net liabilities has been accounted for as payment for a service of a stock exchange listing for Hongbo Mining's business, and recognised in profit or loss during the year (see note 6).

The financial information for the year ended 31 March 2017 comprises the Company and its subsidiaries.

The measurement basis used in the preparation of the financial information is the historical cost basis.

The preparation of financial information in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

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

(c) Changes in accounting policies

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. None of these developments have had a material effect on how the Group's results and financial position for the current or prior periods have been prepared or presented.

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

3 REVENUE

The Group is engaged in the exploration, development, production and sale of crude oil. Revenue represents the sales value of crude oil supplied to the customers, net of value added tax. The Group's customer includes only one customer with whom transactions have exceeded 10% of the Group's revenues.

4 TAXES OTHER THAN INCOME TAX

	Year ended 31 March	
	2017 HK\$'000	2016 HK\$'000 (restated)
Resources tax	4,607	6,642
City construction tax	469	680
Education surcharge	282	395
	<u>5,358</u>	<u>7,717</u>

5 EXPLORATION EXPENSES, INCLUDING DRY HOLES

	Year ended 31 March	
	2017 HK\$'000	2016 HK\$'000 (restated)
Staff cost	274	1,422
Dry holes	4,135	–
Geological and geophysical costs	14,806	–
	<u>19,215</u>	<u>1,422</u>

6 ACQUISITION

As mentioned in note 2(b), although the Reverse Takeover Transaction has structured such that the Company acquired the entire equity interest of Hongbo Mining, Hongbo Mining is treated as the acquirer, for accounting purpose. Hongbo Mining is deemed to have issued shares to acquire the identifiable net liabilities and the listing status of the Company. The difference of the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of identifiable net liabilities has been accounted for as payment for the listing status.

Details of the identifiable net liabilities of the Company and listing expense arising from the Reverse Takeover Transaction as at the Completion Date are as follows:

	HK\$'000
Other receivables	812
Cash at bank and on hand	495
Trade and other payables	(10,050)
Convertible bonds (<i>note 13</i>)	<u>(114,208)</u>
Total identifiable net liabilities at fair value	(122,951)
Listing expense	<u>294,390</u>
Fair value of the shares deemed to have been issued by Hongbo Mining	<u>171,439</u>

7 NET FINANCE COSTS

	Year ended 31 March	
	2017 HK\$'000	2016 HK\$'000 (restated)
Interest income	(165)	(138)
Changes in fair value on the derivative component of convertible note (note 14)	(996)	–
Interest on bank and other borrowings	4,863	5,737
Interest on convertible bonds and convertible note (notes 13 and 14)	11,327	–
Accretion expenses	1,631	2,887
Foreign exchange loss, net	316	–
Others	12	259
	<u>16,988</u>	<u>8,745</u>

8 INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

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

	Year ended 31 March	
	2017 HK\$'000	2016 HK\$'000 (restated)
Deferred tax		
Origination and reversal of temporary differences	<u>11,807</u>	<u>4,307</u>

(b) Reconciliation between tax expense and accounting loss at applicable tax rate:

	Year ended 31 March	
	2017 HK\$'000	2016 HK\$'000 (restated)
Loss before taxation	<u>(450,619)</u>	<u>(34,636)</u>
Notional tax on loss before taxation, calculated at the rates applicable to profits in the countries concerned	(14,308)	(8,659)
Effect of non-deductible expenses	4,555	6,605
Effect of unrecognised tax losses	<u>21,560</u>	<u>6,361</u>
Actual tax expense	<u>11,807</u>	<u>4,307</u>

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the “BVI”), the Group is not subject to any income tax in Bermuda and the BVI.

Hongbo Mining and other PRC incorporated subsidiaries of the Company are subject to PRC enterprise income tax at the statutory rate of 25%.

Certain Hong Kong incorporated subsidiaries of the Company are subject to Hong Kong Profits Tax which is calculated at 16.5% of the estimated assessable profits.

No provisions for Hong Kong profits tax and PRC enterprise income tax have been made as the Group does not have any estimated assessable income arising in Hong Kong or the PRC for both the current and prior year.

9 LOSS PER SHARE

(a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the Company of HK\$462,426,000 (2016 (restated): HK\$38,943,000) and the weighted average of 1,402,771,000 ordinary shares (2016 (restated): 974,031,000 shares) in issue during the year.

As the capital of Hongbo Mining is not sub-divided into shares, when calculating basic loss per share for the year ended 31 March 2016, the weighted average number of shares used is based on the number of ordinary shares that have been in substance issued by the Company for the acquisition of Hongbo Mining as part of the Reverse Takeover Transaction (note 2(b)).

When calculating the basic loss per share for the year ended 31 March 2017, the weighted average number of shares used from the beginning of the year to the Completion Date is based on the number of ordinary shares that have been in substance issued by the Company for the acquisition of Hongbo Mining (as described above), and the weighted average number of shares for the rest of the period is based on the actual number of the Company’s ordinary shares in issue from the Completion Date to 31 March 2017.

(b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the years ended 31 March 2017 and 2016 in respect of a dilution as the impact of the convertible bonds, convertible note and preferred shares had an anti-dilutive effect on the basic loss per share amounts presented.

10 TRADE AND OTHER RECEIVABLES

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)	At 1 April 2015 HK\$'000 (restated)
Trade receivables	49,368	53,719	50,320
Receivables of preferred shares	853,347	–	–
Other receivables due from former related parties			
— holding company	–	–	27,107
— fellow subsidiaries	–	7,483	47,248
Others	6,817	7,685	12,246
	<u> </u>	<u> </u>	<u> </u>
Loan and receivables	909,532	68,887	136,921
Prepayment to suppliers	21,005	9,098	8,788
Performance deposit for Stonegate Acquisition	181,884	–	–
	<u> </u>	<u> </u>	<u> </u>
	<u>1,112,421</u>	<u>77,985</u>	<u>145,709</u>

At 31 March 2017 and 2016, amounts due from former related parties were unsecured, interest-free and had no fixed terms of repayment.

All of the trade and other receivables (including amounts due from former related parties) are expected to be recovered or recognised as expense within one year.

(a) Ageing analysis

As of the end of the reporting period, the ageing analysis of trade receivables, based on the invoice date (or date of revenue recognition, if earlier) and net of allowance for doubtful debts, is as follows:

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)
Within 1 month	10,167	8,019
1 to 6 months	39,201	45,700
	<u> </u>	<u> </u>
	<u>49,368</u>	<u>53,719</u>

(b) Impairment of trade receivables

Impairment losses in respect of trade receivables is 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.

The ageing analysis of trade debtors and bills receivable that are neither individually nor collectively considered to be impaired are as follows:

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)
Neither past due nor impaired	39,423	42,004
Less than 1 month past due	9,945	8,019
More than 1 month but less than 3 months past due	—	3,696
	<u>49,368</u>	<u>53,719</u>

Receivables that were past due but not impaired relate to an independent customer that have a good track record with the Group. Based on past experience, management believes that no impairment allowance is necessary in respect of these balances as there has not been a significant change in credit quality and the balances are still considered fully recoverable.

11 TRADE AND OTHER PAYABLES

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)	At 1 April 2015 HK\$'000 (restated)
Trade payables	129,501	171,070	203,362
Other payables due to former related parties			
— holding company	—	—	71,771
— fellow subsidiaries	—	—	67,253
— other related party	—	—	24,034
Taxes other than income tax	9,961	9,983	16,091
Guarantee deposit	39,424	42,004	44,187
Payable due to Yanchang	74,723	92,096	104,292
Interest payable	10,126	3,822	—
Others	9,158	1,585	2,287
	<u>272,893</u>	<u>320,560</u>	<u>533,277</u>

All of the trade and other payables (including amounts due to former related parties) are expected to be settled within one year or are repayable on demand.

As of the end of the reporting period, the ageing analysis of trade payables, based on the invoice date (or date of recognition, if earlier), is as follows:

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)
Within 1 year	55,503	47,817
Over 1 year but within 2 years	36,582	103,949
Over 2 years but within 3 years	33,226	17,736
Over 3 years	4,190	1,568
	<u>129,501</u>	<u>171,070</u>
Trade payables	<u>129,501</u>	<u>171,070</u>

12 BANK AND OTHER BORROWINGS

At 31 March 2017, the bank and other borrowings were repayable as follows:

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)	At 1 April 2015 HK\$'000 (restated)
Within 1 year or on demand	<u>101,375</u>	<u>108,011</u>	<u>244,993</u>

At 31 March 2017, the bank and other borrowings were as follows:

	At 31 March 2017 HK\$'000	At 31 March 2016 HK\$'000 (restated)	At 1 April 2015 HK\$'000 (restated)
Bank borrowing	–	–	37,369
Other borrowings — unsecured			
— former related parties	–	–	207,624
— third party	101,375	24,002	–
Other borrowings — secured	–	84,009	–
	<u>101,375</u>	<u>108,011</u>	<u>244,993</u>

During the year ended 31 March 2017, the Group obtained the following short-term loans:

- (i) RMB70,000,000 (equivalent to approximately HK\$78,847,000) from China Merchants Bank Co., Ltd. entrusted by a third party, Guangzhou Zhang Su Investment Consulting Co., Ltd. (“**Zhang Su**”). This loan is unsecured, bearing interest at a fixed rate of 4.8% per annum and repayable within 3 months; and
- (ii) RMB20,000,000 (equivalent to approximately HK\$22,528,000) from China Merchants Bank Co., Ltd. entrusted by a third party, Xizang Zhuo Chuang Investment Co., Ltd (“**Zhuo Chuang**”). This loan is unsecured, bearing interest at a fixed rate of 4.35% per annum and repayable within 1 year.

13 CONVERTIBLE BONDS

	Liability component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 29 July 2016	114,208	133,092	247,300
Interest expenses (<i>note 7</i>)	3,133	–	3,133
Interest payable	(800)	–	(800)
	<u>116,541</u>	<u>133,092</u>	<u>249,633</u>
At 31 March 2017	<u>116,541</u>	<u>133,092</u>	<u>249,633</u>

The convertible bonds have total nominal value of HK\$120,000,000 and interest at 1 % per annum which is payable half year in arrears. The convertible bonds are convertible into the Company's ordinary shares at a conversion price of HK\$0.0672 per share at any time before 30 April 2018.

14 CONVERTIBLE NOTE

	Liability component <i>HK\$'000</i>	Derivative component <i>HK\$'000</i>	Equity component <i>HK\$'000</i>	Total <i>HK\$'000</i>
At 29 July 2016	211,218	4,199	34,583	250,000
Interest expenses (<i>note 7</i>)	8,194	–	–	8,194
Fair value changes on the derivative component (<i>note 7</i>)	–	(996)	–	(996)
	<u>219,412</u>	<u>3,203</u>	<u>34,583</u>	<u>257,198</u>
At 31 March 2017	<u>219,412</u>	<u>3,203</u>	<u>34,583</u>	<u>257,198</u>

On 29 July 2016, the Company issued the convertible note with an aggregate principal amount of HK\$250,000,000. According to the terms of the convertible note, no interest shall be payable on the entire principal amount and the maturity date is the third anniversary of the completion date, i.e. 29 July 2019. The holder of the convertible note (“**CN holder**”) has the right to convert the convertible note into the Company's 373,357,228 ordinary shares at a conversion price of HK\$0.6696 per share. During the period starting from the first day of the 31st month following 29 July 2016, the CN holder has the right to request the Company to redeem the convertible note by paying the CN holder a redemption premium of HK\$125,000,000 as well as the principal amount of HK\$250,000,000.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

There is no dividend declared attributable to the year ended 31 March 2017 (2016: Nil).

There is no dividends payable to owners of the Company attributable to previous financial year, approved and paid during the year ended 31 March 2017 (2016: Nil).

(b) Share capital

	Ordinary shares		Preferred shares		Total	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Shares of HK\$0.01 each						
Authorised:						
At 1 April 2015 and 31 March 2016	8,000,000	80,000	–	–	8,000,000	80,000
Increase in authorised shares (<i>note (i)</i>)	–	–	5,000,000	50,000	5,000,000	50,000
At 31 March 2017	<u>8,000,000</u>	<u>80,000</u>	<u>5,000,000</u>	<u>50,000</u>	<u>13,000,000</u>	<u>130,000</u>
Issued, paid or payable:						
At 1 April 2015 and 31 March 2016	347,326	3,473	–	–	347,326	3,473
Allotment and issuance of shares (<i>note (ii)</i>)	<u>1,269,415</u>	<u>12,694</u>	<u>2,747,909</u>	<u>27,479</u>	<u>4,017,324</u>	<u>40,173</u>
At 31 March 2017	<u>1,616,741</u>	<u>16,167</u>	<u>2,747,909</u>	<u>27,479</u>	<u>4,364,650</u>	<u>43,646</u>

Note:

- (i) Pursuant to a special resolution passed on 22 July 2016, the authorised share capital of the Company was increased from HK\$80,000,000 to HK\$130,000,000 by the creation of 5,000,000,000 preferred shares of HK\$0.01 each.
- (ii) At the Completion Date, the Company issued 1,269,414,575 ordinary shares at a subscription price of HK\$0.6696 per share for cash and 2,747,909,199 preferred shares at a subscription price of HK\$0.6696 per share.

Key terms of the preferred shares

- The total cash consideration for the subscription is HK\$1,840,000,000, of which HK\$986,653,000 has been received as at 31 March 2017 and the remaining HK\$853,347,000 shall be fully received within one year of the Completion Date;
- Holders of fully-paid preferred shares will be entitled to all rights and privileges of the preferred shares;
- None of the preferred shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution;
- The holders of the preferred shares shall be entitled to the net assets of the Company on an as-if-converted basis. Even if the preferred shares are not fully paid on liquidation, winding up or dissolution of the Company, the preferred shares shall entitle the holder the Company's net assets and at the same time the Company has the right to request full payment of the subscription price from the holder; and
- The fully-paid preferred shares are convertible into the Company's ordinary shares.

BUSINESS REVIEW

Change of the Group's principal activities and effects on financial reporting of the Group for the Reverse Takeover Transaction

Following the completion of the Reverse Takeover Transaction on 29 July 2016 (the “**Completion Date**”), the Group has ceased its hotel and restaurant operations and has become principally engaged in the exploration, development, production and sale of crude oil in the People's Republic of China (the “**PRC**”).

The Reverse Takeover Transaction has been structured such that the Company acquired the entire equity interest of Xilin Gol League Hongbo Mining Development Company Limited* 錫林郭勒盟宏博礦業開發有限公司 (“**Hongbo Mining**”), with Titan Gas Technology Investment Limited (“**Titan Gas**”) becoming the majority shareholder of the combined group as a result. In addition, as the Company divested its entire original business as part of the Reverse Takeover Transaction, the overall transaction does not constitute a business combination in accordance with HKFRS 3 *Business Combinations*. Instead, Hongbo Mining was deemed to have issued shares to acquire the identifiable net liabilities and the listing status of the Company in accordance with HKFRS 2 *Share-based Payment*.

Accordingly, the consolidated financial information has been presented as a continuation of the financial information of Hongbo Mining, such that:

- (i) the assets and liabilities of Hongbo Mining were recognised and measured at their carrying amounts;
- (ii) the identifiable assets and liabilities of the Company were recognised and measured initially at their fair value on the Completion Date; and
- (iii) the comparative information presented in the financial information was restated to be that of Hongbo Mining adjusted to reflect the Company's capital structure.

In addition, the difference in the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of the Company's identifiable net liabilities has been accounted for as payment for a service of a stock exchange listing for Hongbo Mining's business, and recognised in profit or loss for the year.

Review of upstream oil and gas industry and the Group's business operations

For the year ended 31 March 2017, the upstream oil and gas industry experienced a substantial business cyclical downturn (the monthly average Brent Crude spot price was US\$50.2 (equivalent to HK\$390.1) per barrel for the year ended 31 March 2017). As a result of the depressed oil prices and economic fluctuation, the Group's oil production volume decreased by 27.1% to 291,809 barrels (2016: 400,184 barrels); gross and net oil sales volume decreased by 26.4% to 292,287 barrels and 233,830 barrels (2016: 396,981 barrels and 317,585 barrels), respectively, and gross and net revenue decreased by 30.7% to HK\$96.0 million and HK\$76.8 million (2016 (restated): HK\$138.5 million and HK\$110.8 million), respectively.

In response to the low selling prices, the Group has actively adopted well control measures to stabilise the oil production and build up reserves for the year ended 31 March 2017. Furthermore, a portion of the existing wells of the Group have entered the downward phase of the natural production cycle, and thus the decline in production is considered a normal phenomenon. It is also important to note that the Brent Crude oil price rebounded from the lowest price of US\$26 per barrel (equivalent to HK\$202.1 per barrel) on 20 January 2016 to US\$53.5 per barrel (equivalent to HK\$415.8 per barrel) on 31 March 2017. In view of the optimistic oil price trend and after completion of the Subscription (as defined below), the Group had drilled 6 wells and fractured 13 producing wells in Block 212 during the year ended 31 March 2017. As at 31 March 2017, among the 6 drilled wells, 3 of which had been completed, while the remaining 3 were pending for completion. Although the current daily production remains affected by the low oil prices and natural production declines correspondingly, a production boost is expected after these development plans (including new drilling work and fracturing) have come into operation for a few months.

Acquisition of oil and gas producing assets in the United States of America (the "US")

On 21 November 2016 (local time in Houston, Texas, the US), the Company entered into an assets purchase agreement ("**APA**") with Stonegate Production Company, LLC, Stonegate Dimmit Properties, LLC and/or Dimmit/La Salle Saltwater Disposal Company, LLC (the "**Stonegate Sellers**"). Pursuant to the APA, the Company has conditionally agreed to acquire and the Stonegate Sellers have conditionally agreed to sell the oil and gas related assets of the Stonegate Sellers in the Eagle Ford region of South Texas, the US (the "**Target Assets**") at a purchase price of US\$278 million (equivalent to HK\$2,156 million) (subject to adjustments in accordance with the APA) (the "**Stonegate Acquisition**").

Subsequently, on 6 March 2017, the Company entered into an assignment agreement with Rockgate Production Company LLC (a wholly-owned subsidiary of the Company in the US) ("**Rockgate**") for US\$10 and other good and valuable consideration, pursuant to which the Company has agreed to assign all of its right, title and interest under the APA to Rockgate and Rockgate has agreed to assume all the obligations and liabilities of the Company under the APA accruing from and after 7:00 a.m., central time, on 1 July 2016.

The Company obtained shareholders' approval in respect of the entering into of the APA and the transactions contemplated thereunder on 31 March 2017.

Under the APA, all conditions shall have been satisfied or, if applicable, waived pursuant to the terms of the APA and the closing shall have been consummated by the end date (the “**End Date**”) (i.e. 4 May 2017), provided however, among others, that if all conditions other than the obtaining of the approval (the “**CFIUS Approval**”) from the Committee in Foreign Investment in the US (the “**CFIUS**”) have been satisfied by the End Date, the Stonegate Sellers or the Company shall have the option to extend the End Date by 30 additional days, which can be further extended by mutual written agreement of all parties to the APA. Closing shall take place, as soon as possible, but in no event later than 5 business days (the “**Closing Counting Days**”) after the fulfilment, or if applicable, waiver of the conditions (other than those conditions cannot be satisfied until the time of the closing, but subject to the satisfaction or waiver), or at such time as the Stonegate Sellers and the Company may agree in writing.

On 28 April 2017, the Company announced that, in order to accommodate the additional time needed for CFIUS to evaluate and approve the Stonegate Acquisition, Rockgate and the Stonegate Sellers entered into the first amendment to the APA, agreeing that the End Date set forth in the APA (i.e. 4 May 2017) would be changed to 18 July 2017, and the extension of the End Date would be changed from 30 additional days to 11 additional business days. In addition, Rockgate and the Stonegate Sellers have agreed that the Closing Counting Days would be changed from 5 business days to 10 business days and the transaction support agreement entered into by, among others, the Company, certain creditors holding liens on the Target Assets, and certain holders of Series A Units, or of Series A Units and Series B Units, as applicable, in Stonegate (together holding and controlling at least 98% of the issued and outstanding Series A Units in Stonegate) (the “**Unitholders**”), would also be extended to conform to the extension of the End Date of the APA. Subject to the results of further communication with CFIUS, the Company and the Stonegate Sellers may agree to further amend the APA.

For details of the Stonegate Acquisition, please refer to the announcements of the Company dated 22 November 2016, 31 March 2017 and 28 April 2017, and the circular of the Company dated 9 March 2017 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

Use of proceeds from the Subscription and the Convertible Note Subscription

On 29 July 2016, the Company completed, among others, the following transactions:

1. a subscription of certain ordinary shares and preferred shares issued by the Company to Titan Gas and other subscribers (the “**Subscription**”); and
2. a subscription of certain convertible notes issued by the Company to League Way Ltd. (the “**CN Subscription**”).

On 8 March 2017, the Company announced that, in view of the acquisition of the Target Assets, it proposed to allocate part of the proceeds available from the Subscription and the CN Subscription to finance the said acquisition. For details and reasons for the change in use of proceeds, please refer to the announcement of the Company dated 8 March 2017.

The following table summarises the proposed use of proceeds (before and after the reallocation as announced on 8 March 2017) and the actual use of such proceeds as at 31 March 2017:

Transaction	Gross proceeds <i>HK\$ million</i>	Amount	Amount	Use of proceeds	Use of proceeds	Actual use of proceeds as at 31 March 2017
		received as at 31 March 2017 <i>HK\$ million</i>	receivable as at 31 March 2017 <i>HK\$ million</i>	(before reallocation as announced on 8 March 2017)	(after reallocation as announced on 8 March 2017)	
Subscription	2,690	1,836	854	<ul style="list-style-type: none"> - approximately HK\$60 million for the payment of the transaction expenses; - approximately HK\$665 million for the payment of the consideration for the acquisition of the entire equity interest of Hongbo Mining (the “Acquisition”); - approximately HK\$400 million to finance the repayment of Hongbo Mining’s outstanding payables and borrowings; - approximately HK\$800 million to finance the development plan of the currently explored areas in Block 212 in Inner Mongolia (“Block 212”); - approximately HK\$450 million for exploration and development of other areas in Block 212; 	<ul style="list-style-type: none"> - approximately HK\$66 million for the payment of the transaction expenses; - approximately HK\$652 million for the payment of the consideration for the Acquisition; - approximately HK\$400 million to finance the repayment of Hongbo Mining’s outstanding payables and borrowings; - approximately HK\$800 million to finance the development plan of the currently explored areas in Block 212; - approximately HK\$111 million to finance the operating expenses of Hongbo Mining as well as the restructured Group; and 	<ul style="list-style-type: none"> - approximately HK\$66 million was used to settle the payment of the transaction expenses; - approximately HK\$652 million was used to settle the payment of the consideration for the Acquisition; - approximately HK\$25 million was used for repayment of Hongbo Mining’s outstanding payables and borrowings; (<i>Note 1</i>) - approximately HK\$22 million was used for the development work in Block 212 (<i>Note 1</i>); and - approximately HK\$181 million was used in respect of the acquisition of the Target Assets (<i>Note 2</i>).

Transaction	Gross proceeds <i>HK\$ million</i>	Amount received as	Amount	Use of proceeds	Use of proceeds	Actual use of proceeds as at 31 March 2017
		at 31 March 2017 <i>HK\$ million</i>	receivable as at 31 March 2017 <i>HK\$ million</i>	(before reallocation as announced on 8 March 2017)	(after reallocation as announced on 8 March 2017)	
				<ul style="list-style-type: none"> - approximately HK\$115 million to finance the operating expenses of Hongbo Mining as well as the restructured Group; and - approximately HK\$200 million for expanding the business of the Group by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects. 	<ul style="list-style-type: none"> - approximately HK\$661 million for expanding the business of the Group by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects. 	
CN Subscription	250 (being the principal amount of the convertible note)	250	Nil	<ul style="list-style-type: none"> - approximately HK\$200 million to expand the restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects; and - approximately HK\$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the restructured Group. 	<ul style="list-style-type: none"> - approximately HK\$200 million to expand the restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects; and - approximately HK\$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the restructured Group. 	approximately HK\$27 million was used for the general working capital of the restructured Group.

Notes:

1. Hongbo Mining received HK\$70 million from the Company, HK\$23 million has not yet utilised as at 31 March 2017. Hongbo Mining carried out development work in Block 212 and incurred a total cost of HK\$22 million, and repaid the outstanding payables and borrowings amounting to HK\$25 million for the year ended 31 March 2017.
2. On 21 November 2016, the Group entered into the APA, the purchase price will be approximately US\$278 million (approximately HK\$2,156 million). In order to finance the acquisition with ample working capital while maintaining normal cash flow of the Group for ongoing operation, approximately 60% of the initial purchase price pursuant to the APA is intended to be financed by a loan to be obtained from commercial bank(s). The remaining approximately 40% of the initial purchase price, i.e. US\$111 million (approximately HK\$861 million) was intended to be financed by the Company's previous share subscription and convertible note subscription completed in July 2016. As at 31 March 2017, the Group had delivered to the Escrow Agent (as defined in the circular of the Company dated 9 March 2017) a performance deposit of US\$18.07 million (approximately HK\$140.25 million) and a total of general and administrative expenses of US\$5.33 million (approximately HK\$41.1 million). The total amount of HK\$181 million is sourced from the portion of proceeds for acquisition. For further details of the APA, please refer to the circular of the Company dated 9 March 2017.

For further details of the Subscription and the CN Subscription, please refer to the RTO Circular and the Company's announcement dated 29 July 2016 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

REVIEW OF EXPLORATION, DEVELOPMENT AND MINING ACTIVITIES

Under the exploration and production cooperation contract (“**EPCC**”) entered into between Hongbo Mining and Yanchang, Yanchang (as the mineral right owner) and Hongbo Mining (as the operator) cooperate to explore for oil in Block 212 and Block 378 which together cover a region of 591 km² in East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia of the PRC (the “**Area**”); the crude oil produced from the Area, which belongs to Yanchang, is sold by Hongbo Mining (as entrusted by Yanchang) to the customers designated by Yanchang; and Hongbo Mining and Yanchang are entitled to share 80% and 20% of the sale proceeds (net of any sales related taxes). Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted to it by Ministry of Land and Resources of the PRC (“**MOLR**”) in 2008 (in respect of Block 378) and 2009 (in respect of Block 212). The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2019, and the current exploration permit of Yanchang in respect of Block 378 will expire on 9 November 2017. Both exploration permits are renewable after expiry for terms of two years each time.

The Group has carried out in-depth geophysical and geological studies in Block 212 based on 138 existing wells and 3D seismic data. Within Block 212, pilot production of oil has focused on five fault compartments, which are collectively referred to as Unit 2 and Unit 19. The Group's estimated reserves relate to Unit 2 and Unit 19 only. Yanchang has made an application to MOLR for a production permit covering Unit 2 and Unit 19. As at the date of this announcement, while MOLR is still reviewing Yanchang's application, the expert review of overall development plan has already been approved by MOLR. In Block 212, crude oil has also been produced from exploration/development wells located in other fault compartments, including three new wells, Y9, Y9-1 and Y38 and the other area of the Block 212, but further appraisal drilling will be required before reserves estimates can be made.

The below are the summary and review of the reserves and resources of the Group as at 31 March 2017, as conducted by the independent technical consultants:

	As at 31 March 2017		As at 31 December 2015	
	Gross (MMstb)	Net (MMstb)	Gross (MMstb)	Net (MMstb)
Proved (1P)	10.2	8.2	10.1	8.1
Proved + Probable (2P)	15.3	12.2	14.2	11.4
Proved + Probable + Possible (3P)	22.0	17.6	18.9	15.2
Contingent resources (1C)	0.49	0.39	0.49	0.39
Contingent resources (2C)	0.71	0.57	0.71	0.57
Contingent resources (3C)	1.67	1.34	1.67	1.34
Prospective resources	9.7	7.76	9.7	7.76

Note: The above information relates to Block 212. As at 31 March 2017, the Group had completed the drilling of one exploration well in Block 378, but no commercial oil or gas was found. No resources have been estimated for Block 378.

The net reserves figures represent the Group's 80% revenue interest under the EPCC entered into between Hongbo Mining and Yanchang in respect of Block 212 and Block 378 from time to time thereafter.

Based on the reserves estimates as at 31 March 2017 as reviewed by the independent technical consultants, the net reserves (1P) of the Group was 8.2MMstb, representing an increase of 1.2% from the net reserves (1P) as at 31 December 2015; the net reserves (2P) was 12.2MMstb, representing an increase of 7.0% from the net reserves (2P) as at 31 December 2015; the net present value, after tax and discounted at 10% ("NPV10"), of the Group's net 2P oil and gas reserves was approximately US\$184 million as at 31 March 2017, which represented a 60% increase from the NPV10 of US\$115 million reported as at 31 December 2015. Effective excavation of the potential reserves in old areas and discovery of reserves in new area in the year ended 31 March 2017 resulted in higher reserves replacement rate, and more effective promotion of the scale development and commercialised production of Block 212.

After the completion of Reverse Takeover Transaction, the operation management and organisation of Hongbo Mining have improved considerably. The efficiency of the production wells has also significantly improved, boosting the recoverable reserves within the Block 212 substantially. It is mainly due to the Group's implementation of hydraulic fracturing stimulations on the existing wells, which has effectively excavated the potential reserves and increased the reserves of 1P accordingly.

For the year ended 31 March 2017, the Group achieved a major breakthrough in the new appraisal well Y9-1, which reached a daily high production of 156 barrels per day on the well test stage and was one of the highest daily production wells in Block 212 in recent 3 years. This remarkable progress provides a solid foundation for further development in Block 212. The Y9-1 well is located at the boundary of Unit 19 and its high production volume reflects a large scale of underground reserves, pending further exploration and geographical information for further analysis.

The planned well drilling areas and planned well drilling positions of the original development plan of the Group, which possess high development potential, will not experience material change and will largely follow the Group's original development plan. As the Group has achieved a major breakthrough in the new appraisal well Y9-1, this provides the Group with a new regional unit that has relatively high production potential and may allow the Group to deploy up to several hundred development wells in the future. The new appraisal well Y9-1 further enhances the Group's original development plans in terms of reserves and production volume. The Group's drilling plans for the year ended 31 March 2017 consisted of the original development plan and also development of step-out wells from new regional unit surrounding the appraisal well Y9-1. The current daily high output demonstrates the relatively high potential of the new unit.

The following table provides a recap of the Group's key operational metrics and product prices for the periods indicated:

	Year ended 31 March	
	2017	2016
Average daily gross production volume (<i>barrels</i>)	811	1,112
Average daily gross sales volume (<i>barrels</i>)	812	1,103
Average unit production cost before depreciation and amortisation (<i>HK\$ per barrel</i>)	139	141
Average unit production cost (<i>HK\$ per barrel</i>)	272	271
Average unit selling price (<i>HK\$ per barrel</i>)	328	349

The summary of exploration and development expenditures incurred is as follows:

	Summary of expenditures incurred for the year ended 31 March			
	2017		2016	
	<i>Number</i>	<i>Cost (HK\$'000)</i>	<i>Number</i>	<i>Cost (HK\$'000)</i>
Wells drilled during the year				
Dry holes	1	4,135	–	–
Oil producers (<i>Note</i>)	6	11,902	–	–
Total	7	16,037	–	–
Fracturing workover	13	8,988	20	15,550
Geological and geophysical costs	1	14,806	–	–

Note: During the year ended 31 March 2017, the Group had successfully drilled 6 wells. As at 31 March 2017, 3 of them had been completed and the remaining 3 were pending for completion.

OUTLOOK

2016 marked one of the most monumental years in oil history. At the beginning of 2016, the price of oil stayed around US\$30 per barrel which led to reduction in industry spending. Companies with relatively high cost of production were forced to stop drilling, while companies with relatively high financing cost focused on maintaining liquidity. However, this dynamic soon proved unsustainable for both North America shale producers and members of Organisation of the Petroleum Exporting Countries, which agreed production cut in late 2016, thus bringing the market closer to balance and returning oil to the US\$50 range.

As mentioned above, for the year ended 31 March 2017, the Group achieved a major breakthrough on the newly drilled Y9-1 well, which is one of the highest daily production wells in Block 212. Its high production volume reflects a large scale of underground reserves. The Group will first study the production statistics of the Y9-1 well and evaluate its impact on the whole development plan of new wells drilling. This has temporarily affected the drilling plan of the Group in 2016, but the Group will follow up, expedite and adhere to the general development plan in 2017. The Group will adopt a stable output strategy and is prepared to invest a large amount of capital expenditure for further drilling and fracturing plan, based on the international oil market trend.

During the past year, as one of its existing strategies, the Group has aimed to widen its global footprint and develop a more diversified and balanced oil and gas business portfolio through selective acquisition of overseas upstream oil assets. In view of the continuous macro-control measures and the ever-changing market condition in the oil and gas industry, on the basis of the Group's existing overall strategic development premise, the Group has made reasonable planning to expand its business development model and consider engaging in investment and management of oil and gas assets. Given the recent low crude oil commodity price environment, the Board believes this business expansion model will continue to demonstrate the Group's commitment in oil and gas industry, drive the growth of the Group's oil and gas asset base, and enhance shareholder value.

The Board is of the view that the investment and management of oil and gas assets is a favourable option for the Group to achieve sustainable long-term growth and prosperity in the cyclic oil and gas industry. The Board expects that the Group can continue to capture investment opportunities globally by best leveraging its industry and business development expertise, establishing an investment platform, and adopting contrarian investment strategy. To satisfy the capital needs for assets investment and management, subject to the market condition, the Group will look for the most suitable fund raising method which may include leveraging both equity and/or debt markets, as well as any other alternative fund raising methods. The Board believes that the Group is well positioned to develop quickly when attractive assets become available, and outperform crude oil benchmarks. The Group endeavors to present a unique investment opportunity for its shareholders to gain exposure to a diversified, top quality global oil and gas asset portfolio.

FINANCIAL RESULTS REVIEW

Revenue

The Group's revenue decreased by HK\$34.0 million, or 30.7%, from HK\$110.8 million for the year ended 31 March 2016 to HK\$76.8 million for the year ended 31 March 2017.

The Group's crude oil is priced mainly with reference to international market prices including Brent Crude oil, etc. The decrease in revenue was mainly due to the decrease in crude oil prices and the Group's net sales volume. The average unit selling price of the Group's crude oil decreased to HK\$328 per barrel for the year ended 31 March 2017 from HK\$349 per barrel for the year ended 31 March 2016, which was consistent with the trend of global oil prices. The Group's net sales volume decreased to 233,830 barrels for the year ended 31 March 2017 from 317,585 barrels for the year ended 31 March 2016, which was mainly due to the decline of production volume, as the Group had only commenced the development plan (including new drilling work and fracturing) since the end of August 2016. For further details of the decline of the production volume, please refer to "Business Review — Review of Upstream Oil and Gas Industry and the Group's Business Operations".

Cost of sales

The Group's cost of sales decreased by HK\$26.4 million, or 24.8%, from HK\$106.3 million for the year ended 31 March 2016 to HK\$79.9 million for the year ended 31 March 2017.

This decrease was primarily attributable to the decrease in extraction costs and staff costs which were mainly due to the implementation of cost control measures for wells, and the decrease in depreciation of oil and gas properties, which was mainly attributable to the decrease in production volume of crude oil.

Gross (loss)/profit

The Group recorded gross profit of HK\$4.5 million for the year ended 31 March 2016 and gross loss of HK\$3.1 million for the year ended 31 March 2017, which was primarily due to the decrease in the Group's average unit selling price of crude oil.

The gross profit margin of the Group was temporarily adversely affected by the decrease in the Group's average unit selling price which was primarily due to the extreme adverse market conditions.

Administrative expenses

The Group's administrative expenses increased by HK\$24.0 million, or 113.0%, from HK\$21.3 million for the year ended 31 March 2016 to HK\$45.3 million for the year ended 31 March 2017. The increase in administrative expenses was primarily due to the one-off professional services expenses of HK\$12.8 million incurred during the year ended 31 March 2017 in relation to the acquisition of the Target Assets.

Taxes other than income tax

The Group's taxes other than income tax decreased by HK\$2.3 million, or 30.1%, from HK\$7.7 million for the year ended 31 March 2016 to HK\$5.4 million for the year ended 31 March 2017, which was mainly due to the decrease in resources tax levied on the sale of crude oil primarily as a result of the drop of revenue.

Exploration expenses, including dry holes

The Group carried out exploration activities and drilled one exploratory well in Block 378 during the year ended 31 March 2017, which resulted in geological and geophysical cost of HK\$14.8 million and dry hole expense of HK\$4.1 million.

Listing expense and related transaction costs

The Group recognised listing expense of HK\$294.4 million for the year ended 31 March 2017 upon the completion of the Reverse Takeover Transactions by applying the principles of reverse acquisition in HKFRS 3 and related transaction costs of HK\$66.2 million primarily for professional services rendered in relation to the Reverse Takeover Transactions as well as the related general offer during the year ended 31 March 2017.

The Acquisition and the Divestment (as defined in the RTO Circular) were completed simultaneously and the Company was only a non-operating public corporation at the Completion Date. Since the Company is not a business under HKFRS 3, at the Completion Date, the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of the Company's identifiable net liabilities received should be treated in its entirety as a payment for listing and expensed when incurred.

Whilst such listing expense is a notional expense without any impact on the Group's net assets and cash flow, they had a material adverse impact on the Group's results for the year ended 31 March 2017. The management does not consider this one-off notional non-cash listing expense shall have any adverse impact on the actual operations of the Group.

Net finance costs

The Group's net finance costs increased by HK\$8.3 million, or 94.3%, from HK\$8.7 million for the year ended 31 March 2016 to HK\$17.0 million for the year ended 31 March 2017, which was primarily due to the recognition of effective interest expenses on convertible bonds and convertible note of HK\$11.3 million.

Loss before taxation

The Group's loss before taxation significantly increased by HK\$416.0 million from HK\$34.6 million for the year ended 31 March 2016 to HK\$450.6 million for the year ended 31 March 2017, which was primarily due to the cumulative effects of factors given above.

Income tax

The Group's income tax increased from HK\$4.3 million for the year ended 31 March 2016 to HK\$11.8 million for the year ended 31 March 2017. The change was mainly in relation to the movements of the deferred tax assets and liabilities arising from the temporary differences of the provision for assets retirement obligation, depreciation of oil and gas properties, amortisation of intangible assets and accrued expenses.

Loss for the year

The Group's loss for the year significantly increased by HK\$423.5 million from HK\$38.9 million for the year ended 31 March 2016 to HK\$462.4 million for the year ended 31 March 2017, which was primarily due to the cumulative effects of factors given above.

EBITDA and adjusted EBITDA

Management of the Company prepared a reconciliation of EBITDA and adjusted EBITDA to loss before taxation, our most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest expenses, income tax, depreciation and amortisation. Adjusted EBITDA refers to EBITDA adjusted to exclude non-recurring items, including the notional listing expense and related transaction costs in relation to the Reverse Takeover Transaction and the costs in relation to the acquisition of the Target Assets (as defined in the circular of the Company dated 9 March 2017).

Management of the Company believes that EBITDA and adjusted EBITDA are financial measures commonly used in the oil and gas industry as supplemental financial measures by the management of the Company and by investors, research analysts, bankers and others to assess the Group's operating performance, cash flow and return on capital as compared to those of other companies in the oil and gas industry, and the Group's ability to take on financing. However, EBITDA and adjusted EBITDA should not be considered in isolation or construed as alternatives to profit from operations or any other measure of performance or as an indicator of the Group's operating performance or profitability. EBITDA and adjusted EBITDA fail to account for income tax, interest expenses, depreciation and amortisation.

The following table presents a reconciliation of EBITDA and adjusted EBITDA to loss before taxation for the periods indicated.

	Year ended 31 March	
	2017	2016
	HK\$'000	HK\$'000
Loss before taxation	(450,619)	(34,636)
Add: Interest expenses	16,190	5,737
Add: Depreciation and amortisation	41,634	55,096
	<u> </u>	<u> </u>
EBITDA	(392,795)	26,197
Add: Listing expense and related transaction costs	360,620	–
Add: Cost related to the acquisition of the Target Assets	12,845	–
	<u> </u>	<u> </u>
Adjusted EBITDA	<u>(19,330)</u>	<u>26,197</u>

The Group's EBITDA changed from a profit of HK\$26.2 million for the year ended 31 March 2016 to a loss of HK\$392.8 million for the year ended 31 March 2017. The decrease was primarily attributable to (i) the recognition of significant listing expense and related transaction costs; (ii) the decrease in crude oil prices and net sales volume; and (iii) the professional service fee related to acquisition of the Target Assets.

The Group's adjusted EBITDA changed from a profit of HK\$26.2 million for the year ended 31 March 2016 to a loss of HK\$19.3 million for the year ended 31 March 2017, which was primarily attributable to the decrease in crude oil prices and net sales volume and the increase in exploration expenses.

LIQUIDITY AND FINANCIAL RESOURCES

The Group finances its operations primarily through a combination of bank and other borrowings and proceeds from the Subscription and the CN Subscription. For further details of use of proceeds from the Subscription and the CN Subscription, please refer to “Business Review — Use of Proceeds from the Subscription and the Convertible Note Subscription”.

The Group’s cash and cash equivalents are mostly denominated in HK\$ and RMB. As at 31 March 2017, the Group had unpledged cash and bank deposits of HK\$1,134.5 million (2016 (restated): HK\$15.3 million).

As at 31 March 2017, the Group had outstanding third party unsecured entrusted loans of HK\$101.4 million (2016 (restated): Third party secured entrusted loan of HK\$84.0 million and unsecured entrusted loan of HK\$24.0 million), which were all denominated in RMB. These short term loans carried fixed interest rates ranged from 4.35% to 4.8% (2016 (restated): floating interest rate of 1.1 times of the prevailing market interest rate published by People’s Bank of China for the third party secured entrusted loan and fixed interest rate of 4.8% per annum for the unsecured entrusted loan).

As at 31 March 2017, the Group had a convertible note with carrying amount of HK\$222.6 million (2016 (restated): Nil). The principal amount of the convertible note is HK\$250 million pursuant to the CN Subscription Agreement (as defined in the RTO Circular), with the maturity date of 29 July 2019) and that no interest shall be payable on the entire CN Principal Amount (as defined in the RTO Circular).

As at 31 March 2017, the Group had convertible bonds with carrying amount of HK\$116.5 million (2016 (restated): Nil). The aggregate principal amount of the convertible bonds is HK\$120 million, with the maturity date of 30 April 2018 and payable at an interest rate of 1% per annum.

Save as the information disclosed above or otherwise in this annual results announcement, the Group had no outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, borrowings, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities as at 31 March 2017.

The Group has not used any financial instrument to hedge potential fluctuation in interest rates and exchange rates.

As at 31 March 2017, the Group’s gearing ratio (ratio of the sum of total bank and other borrowings, convertible bonds and convertible note to the total assets) was 15.5% (2016 (restated): 13.8%).

MAJOR RISK MANAGEMENT

Our market risk exposures primarily consist of oil price risk, currency risk, liquidity risk and interest rate risk.

Oil price risk

The Group is engaged in petroleum-related activities. Prices of crude oil are affected by a wide range of global and domestic political, economic and military factors which are beyond the control of the Group. A decrease in such prices could adversely affect the Group's financial position. The Group has not used any derivative instruments to hedge against potential price fluctuations of crude oil.

Currency risk

The Group is exposed to currency risk primarily through overseas investment which gives rise to other receivables and cash balances that are denominated in a foreign currency, i.e. a currency other than the functional currency of the operations to which the transactions relate. The currencies giving rise to this risk are primarily HK\$ and RMB.

The Group currently does not engage in hedging activities designed or intended to manage foreign exchange rate risk. The Group will continue to monitor foreign exchange changes to best preserve the Group's cash value.

Liquidity risk

Individual operating entities within the Group are responsible for their own cash management, including the short term investment of cash surpluses and the raising of loans to cover expected cash demands, subject to approval by the parent company's board when the borrowings exceed certain predetermined levels of authority. The Group's policy is to regularly monitor its liquidity requirements and its compliance with lending covenants, to ensure that it maintains sufficient reserves of cash and readily realisable marketable securities and adequate committed lines of funding from major financial institutions to meet its liquidity requirements in the short and longer term.

Interest rate risk

The Group's interest rate risk arises primarily from interest-bearing borrowings. The Group regularly reviews and monitors the mix of fixed and variable rate bank borrowing in order to manage its interest rate risks.

ACQUISITIONS AND DISPOSALS (INCLUDING ANY SIGNIFICANT INVESTMENTS)

Reference is made to the RTO Circular and the Company's announcement dated 29 July 2016.

On 29 July 2016, the Company completed the acquisition of the entire equity interest of Hongbo Mining which is principally engaged in the exploration, development and production of crude oil in Inner Mongolia of the PRC for the cash consideration of RMB558,880,000.

On 29 July 2016, the Company completed the disposal of the entire equity interests of Aykens Holdings Limited and Hopland Enterprises Limited (together with their respective subsidiaries, the "**Divestment Group**") which were principally engaged in the hotel and restaurant business in the PRC (together with the Company's net account receivables owed by the Divestment Group) and the Company's investment in SouFun Holdings Limited for the consideration of HK\$1.

Through the acquisition and the disposal, the Company has successfully transformed the Group's principal activities from its previous PRC hotel and restaurant business to upstream oil and gas business. The Company considers that this represents an important milestone given the great market opportunity in upstream oil and gas investments which opened up due to the recent cyclical trough of international oil and gas prices and the long term prospects of the oil and gas industry, the operating and market challenges being faced as well as the net liabilities recorded by the Divestment Group.

On 21 November 2016 (local time in Houston, Texas, the United States of America), the Company entered into the APA for the acquisition of certain oil and gas assets in the Eagle Ford region of South Texas, the US. Please refer to "Business Review — Acquisition of Oil and Gas Producing Assets in the United States of America" for further details.

The Company will continue to look for opportunities to invest in other upstream oil and gas projects worldwide with a view to enhancing the Group's asset portfolio and overall investment return.

The Group did not hold any significant investments during the year ended 31 March 2017.

CHARGES ON GROUP ASSETS

As at 31 March 2017, the Group did not have any charges on its assets (2016 (restated): Nil).

CONTINGENT LIABILITIES

Hongbo Mining has been involved in a legal dispute with 北京昊湘鈺技術開發有限公司 (Beijing Jiongxiangyu Technology Development Co. Ltd.*) (the “**Claimant**”). The dispute between Hongbo Mining and the Claimant is currently pending a rehearing by the Supreme People’s Court of PRC and there was no development of this dispute during the year ended 31 March 2017.

Please refer to the sections headed “History and Business of the PRC Target — Litigation” and note 31 of Section B to “Appendix III — Accountants’ Report on the PRC Target” in the RTO Circular for further details.

Save as disclosed above, so far as known to the Directors, as at 31 March 2017, there was no other litigation, arbitration or claim of material importance in which the Group is engaged or pending or which as threatened against the Group.

COMMITMENTS

Capital commitments

As at 31 March 2017, the Group had capital commitments of HK\$28.6 million (2016 (restated): HK\$6.1 million) contracted but not provided for the acquisition of property, plant and equipment.

Operating lease commitments

As at 31 March 2017, the Group had operating lease commitments as lessee of HK\$2.2 million (2016 (restated): HK\$0.7 million).

DIVIDEND

The Directors do not recommend the payment of a final dividend for the year ended 31 March 2017 (2016 (restated): Nil).

MANAGEMENT CONTRACT

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

EMPLOYEES

As at 31 March 2017, the Group had 97 (2016 (restated): 70) employees in Hong Kong and the PRC. For the year ended 31 March 2017, the total staff costs (including the directors’ emoluments) amounted to HK\$18.7 million (2016 (restated): HK\$16.4 million). Employees’ remuneration package was reviewed periodically and determined with reference to the performance of the individual and the prevailing market practices. Employees’ remuneration package includes basic salary, year-end bonus, medical and contributory provident fund.

PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SHARES

Neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares during the year.

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Group is committed to achieving high standards of corporate governance and has always recognised the importance of accountability, transparency and protection of shareholders' interest in general. The Company has adopted the code provisions of the Corporate Governance Code and Corporate Governance Report (the "**CG Code**") set out in Appendix 14 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "**Listing Rules**") as its own corporate governance policy, subject to amendments from time to time.

In the opinion of the Board, the Company had complied with the code provisions of the CG Code contained in Appendix 14 of the Listing Rules throughout the year ended 31 March 2017, except for the following CG Code's code provisions:

- (a) CG Code provision A.2.1. stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wang Jingbo is both the chairman of the Board and the chief executive officer of the Company. The Board is of the opinion that such arrangement will not result in undue concentration of power and is conducive to the efficient formulation and implementation of the Company's strategies thus allowing the Company to develop its business more effectively;
- (b) CG Code provision A.4.1 stipulates that non-executive directors should be appointed for a specific term subject to re-election. An independent non-executive Director, Prof. Chen Zhiwu, was not appointed for a specific term on or before 4 August 2016, but has entered into a 3-year service agreement with the Company since 5 August 2016 and shall be subject to re-election by shareholders of the Company at an annual general meeting upon retirement;
- (c) CG Code provision A.6.5 stipulates that all directors should participate in continuous professional development to develop and refresh their knowledge and skills. For the year ended 31 March 2017, only the present Directors had confirmed and provided their training records to the Company; and
- (d) CG Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. During the year, not all independent non-executive Directors and non-executive Directors were able to attend the general meetings of the Company due to their other business commitments.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers (the “**Model Code**”) as set out in Appendix 10 to the Listing Rules to regulate the Directors’ securities transactions.

Having made specific enquiries to all Directors, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout the year ended 31 March 2017.

AUDIT COMMITTEE AND REVIEW OF RESULTS

The audit committee of the Company (the “**Audit Committee**”) currently comprises two independent non-executive Directors, namely, Mr. Chau Shing Yim David (Chairman) and Mr. Shi Cen and one non-executive Director, namely, Mr. Lin Dongliang. The Audit Committee has reviewed with management of the Company the accounting principles and practices adopted by the Company and discussed the risk management and internal controls and financial reporting matters including a review of the annual results of the Company for the year ended 31 March 2017.

SUBSEQUENT EVENT AFTER THE END OF FINANCIAL YEAR

In November 2016, the Company entered into the APA with the Stonegate Sellers. Pursuant to the APA, the Company has conditionally agreed to acquire and the Stonegate Sellers have conditionally agreed to sell the Target Assets at a purchase price of US\$278 million (equivalent to HK\$2,156 million) (subject to adjustments in accordance with the APA).

The Company obtained shareholders’ approval in respect of the entering into of the APA and the transactions contemplated thereunder on 31 March 2017. Completion of the Stonegate Acquisition is conditional upon the satisfaction or, if applicable, waiver of certain conditions precedent set out in the APA, one of which is the obtaining of the approval from the CFIUS.

In order to accommodate the additional time needed for CFIUS to evaluate and approve the acquisition, on 28 April 2017, a subsidiary of the Company and the Stonegate Sellers have entered into the first amendment to the APA, agreeing that the End Date set forth in the APA (i.e. 4 May 2017) would be changed to 18 July 2017, and the extension of the End Date would be changed from 30 additional days to 11 additional business days. In addition, a subsidiary of the Company and the Stonegate Sellers have agreed to extend the transaction closing days from 5 business days to 10 business days and the transaction support agreement entered into by, among others, the Company, certain creditors holding liens on the Target Assets, and certain unitholders of Stonegate would also be extended to conform to the extension of the End Date of the APA.

As at the date of this annual results announcement, the acquisition under the APA has not been completed. The Company may make further announcement and/or circular for compliance with the Listing Rules as and when necessary.

PUBLICATION OF FINAL RESULTS AND ANNUAL REPORT

This announcement is published on the Hong Kong Exchanges and Clearing Limited's website ("**HKExnews website**") at **www.hkexnews.hk** and the Company's website at **www.irasia.com/listco/hk/idgenergy/index.htm**.

The annual report for the financial year ended 31 March 2017 containing all the information required by Appendix 16 of the Listing Rules will be despatched to shareholders of the Company and published on the HKExnews website and the Company's website in due course.

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

Hong Kong, 16 June 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.