

IDG Energy Investment

CONTENTS

CORPORATE INFORMATION	2
CORPORATE PROFILE	3
FINANCIAL SUMMARY	5
OPERATING SUMMARY	7
FINANCIAL AND BUSINESS HIGHLIGHTS	8
CHAIRMAN'S STATEMENT	11
MANAGEMENT DISCUSSION AND ANALYSIS	14
DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES	38
REPORT OF THE DIRECTORS	44
CORPORATE GOVERNANCE REPORT	59
ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT	73
INDEPENDENT AUDITOR'S REPORT	103
AUDITED CONSOLIDATED FINANCIAL STATEMENTS	
CONSOLIDATED STATEMENT OF PROFIT OR LOSS	109
CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME	110
CONSOLIDATED STATEMENT OF FINANCIAL POSITION	111
CONSOLIDATED STATEMENT OF CHANGES IN EQUITY	113
CONSOLIDATED CASH FLOW STATEMENT	114
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS	115

This annual report is printed on environmentally friendly paper.

CORPORATE INFORMATION

THE COMPANY

IDG Energy Investment Limited (the “Company”) (formerly known as “IDG Energy Investment Group Limited”)

BOARD OF DIRECTORS

Executive Directors

WANG Jingbo (Chairman and Chief Executive Officer)
LEE Khay Kok

Non-executive Directors

LIN Dongliang
SHONG Hugo

Independent Non-executive Directors

GE Aiji
SHI Cen
CHAU Shing Yim David

AUDIT COMMITTEE

CHAU Shing Yim David (Chairman)
SHI Cen
LIN Dongliang

REMUNERATION COMMITTEE

CHAU Shing Yim David (Chairman)
GE Aiji
SHONG Hugo

NOMINATION COMMITTEE

GE Aiji (Chairman)
SHI Cen
WANG Jingbo

JOINT COMPANY SECRETARIES

TAN Jue (Chief Financial Officer)
KU Sau Shan Lawrence James

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
China Merchants Bank Tianjin Pilot Free Trade Zone Branch
Industrial Bank CO. LTD, Hong Kong Branch

PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

MUFG Fund Services (Bermuda) Limited
Belvedere Building
69 Pitts Bay Road
Pembroke
HM08 Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Computershare Hong Kong Investor Services Limited
Shops 1712–1716
17th Floor, Hopewell Centre
183 Queen’s Road East
Wanchai
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Unit 5507, 55/F, The Center
99 Queen’s Road Central
Hong Kong

LEGAL ADVISORS

Baker & McKenzie

AUDITOR

KPMG

STOCK CODE

SEHK: 650

WEBSITE

<http://www.idgenergyinv.com>

CORPORATE PROFILE

The Company is an investment holding company mainly engaged in global energy assets investment and management. The financial information of the Company is reported on a consolidated basis with portfolio companies controlled by it, whereas the Company's interests in other portfolio companies are mostly recognized as financial assets at fair value through profit or loss in the Company's financial statements.

As at 31 March 2019, the Company has invested in various energy portfolio companies, both in China and abroad, which include Hongbo Mining, Stonehold, JOVO, GNL Quebec, LNGL, and JUSDA Energy, etc., covering investments in upstream crude oil assets and strategic investments throughout LNG value chain.

- Hongbo Mining is a portfolio company wholly acquired by the Company in 2016. It is an operating company engaged in exploration, development, production and sales of crude oil in China with its gross sales volume of approximately 390,479 barrels, and gross revenue from sales of approximately HK\$210.0 million for the financial year ended 31 March 2019 (“FY2018”). The Company holds 100% equity interest in Hongbo Mining and therefore Hongbo Mining's financial figures are fully consolidated to the Company's financial statements.
- Stonehold, a portfolio company in the upstream sector invested by the Company in 2017, owns a world-class shale oil block in Eagle Ford, Texas of the U.S.. The total net production and the revenue of Stonehold's assets for 2018 had reached approximately 962,000 boe and US\$48.2 million, respectively. The Company invested in Stonehold through providing a Term Loan, where a fixed annual interest rate of 8% is recognized as financial assets at fair value through profit or loss in the Company's financial statements. In addition, the Company is also entitled to an amount equivalent to 92.5% of the net disposal proceeds upon disposal of the underlying assets, which is also recognized as fair value through profit or loss.
- JOVO, an LNG sector portfolio company invested by the Company in 2017, is principally engaged in clean energy businesses, including importing, processing and sale of LNG and LPG in China. JOVO is the first private LNG receiving terminal operator in China and is one of the internationally recognized players in the LNG market, which imports over 1 million tons of LNG annually. The Company holds minority interest in JOVO, of which the financial results are recognized as financial assets at fair value through profit or loss in the Company's financial statements.
- GNL Quebec is another portfolio company invested by the Company along the LNG value chain. GNL Quebec owns and operates one of the largest Canadian LNG export terminals under development with a planned capacity of 11 mmtpa. The Company holds minority interest in GNL Quebec, of which the financial results are recognized as financial assets at fair value through profit or loss in the Company's financial statements.
- LNGL, a listed company on the Australian Securities Exchange (ASX code: LNG), is another portfolio company that the Company invested in 2018. LNGL owns and operates a fully permitted greenfield LNG export terminal, the Magnolia LNG project, in Louisiana of the U.S., with a planned capacity of 8 mmtpa or greater and recognized as one of the most viable LNG projects in the U.S.. The Company is the second largest shareholder of LNGL, and holds a 9.9% equity interest in LNGL. The financial results of LNGL are recognized as financial assets at fair value through profit or loss in the Company's financial statements.

CORPORATE PROFILE

- JUSDA Energy, the latest investment made by the Company in 2018 along the LNG value chain, is engaged in LNG logistics services using LNG ISO container model. As of the date of this annual report, JUSDA Energy has already started providing stable logistics services to its customers to help them distribute LNG from domestic LNG receiving terminals or source LNG globally using ISO container. The Company will hold a 39% equity interest upon completion of all equity contribution in JUSDA Energy and its financial results are recognized as interest in an associate in the Company's financial statements.

With strong supports from its Shareholders, mature investment strategies, sophisticated cross-border transaction capabilities and in-depth knowledge of the global energy market, the Company has best positioned itself to grasp the industry momentum brought by China's energy structural reform and the dynamic changes of the global natural gas market, and is committed to becoming the best cross-border energy assets investment manager in the region.

Note: Terms used in this section have the same meanings as those defined in the subsequent sections of this annual report.

FINANCIAL SUMMARY

	Year ended 31 March				
	2019	2018	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000	(restated) HK\$'000	HK\$'000
Revenue from sales of goods (Note 1)	168,026	123,399	76,779	110,812	143,695
Investment income (Note 2)	163,289	74,395	–	–	–
Subtotal	331,315	197,794	76,779	110,812	143,695
Total income from principal business activities, net of cost (Note 3)	237,956	106,576	(3,105)	4,534	(378,624)
EBITDA	236,636	101,656	(392,795)	26,197	(172,506)
Adjusted EBITDA (Note 4)	236,636	101,656	(32,175)	26,197	(172,506)
Profit/(loss) before taxation	35,482	24,323	(450,619)	(34,636)	(234,934)
Profit/(loss) for the year	27,379	14,493	(462,426)	(38,943)	(234,934)
Basic earnings/(loss) per share (HK\$ per share)	0.437 cent	0.403 cent	(0.33)	(0.04)	(67.38)
Diluted earnings/(loss) per share (HK\$ per share)	0.436 cent	0.294 cent	(0.33)	(0.04)	(67.38)

	As at 31 March				
	2019	2018	2017	2016	2015
	HK\$'000	HK\$'000	HK\$'000	(restated) HK\$'000	HK\$'000
Non-current assets	2,606,207	2,314,740	588,396	654,561	416,234
Current assets	1,292,562	1,948,721	2,251,002	125,419	38,018
Total assets	3,898,769	4,263,461	2,839,398	779,980	454,252
Current liabilities	226,514	287,003	374,268	428,571	185,128
Non-current liabilities	128,842	386,899	387,766	37,858	374,151
Total liabilities	355,356	673,902	762,034	466,429	559,279
Net assets/(liabilities)	3,543,413	3,589,559	2,077,364	313,551	(105,027)

Note 1: The revenue from sales of goods for the four years ended 31 March 2016, 2017, 2018 and 2019 represents the revenue generated from the net sales of crude oil produced by 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 wholly-owned subsidiary of the Company.

Note 2: According to accounting policy, the investment income stated here mainly includes (i) the returns from one of the investments regarding upstream oil and gas assets, primarily in the form of interest income (interest at the rate of 8% per annum) and other fair value gain (entitlement to an amount equivalent to 92.5% of the net disposed proceeds) from the term loan (the “Term Loan”) granted to Stonehold Energy Corporation (“Stonehold”), who holds the unconventional shale oil and gas assets in the Eagle Ford core region in the United States (“U.S.”), details of which are disclosed in the announcements of the Company dated 15 August 2017, 27 September 2017, and 28 February 2018 and the circular of the Company dated 29 September 2017; and (ii) the net of investment income and losses in the form of fair value gain or loss from other projects.

* For identification purposes only

FINANCIAL SUMMARY

Note 3: The total income from principal business activities, net of cost represents the above-mentioned revenue from sales of goods and investment income, net off the cost of sales of goods.

Note 4: 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 during FY2016 (collectively referred to as the Reverse Takeover Transaction, the “**RTO**”) (as defined in the circular of the Company dated 29 June 2016 (the “**RTO Circular**”)).

Note 5: The comparative figures for the financial year ended 31 March 2015 represent the performance of the hotel and restaurant business of the Company and its subsidiaries in China, which was entirely disposed of on 29 July 2016. The comparative figures for the financial year ended 31 March 2016 have been restated to conform to the current year’s presentation.

OPERATING SUMMARY

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Upstream oil and gas business from Hongbo Mining		
Gross production volume (barrels) (Note 1)	387,513	362,682
Gross sales volume (barrels) (Note 1)	390,479	357,387
Net sales volume (barrels)	312,384	285,910
Average unit selling price (HK\$ per barrel) (Note 1)	518	432
Average daily gross production volume (barrels)	1,076	1,007
Average unit production cost before depreciation and amortisation (HK\$ per barrel) (Note 1)	113	103
Average unit production cost (HK\$ per barrel) (Note 1)	241	252
Wells drilled during the year		
– Dry holes (unit)	–	–
– Oil producers (unit) (Note 2)	13	22
Fracturing workover during the year (unit)	4	–
Key investment income		
Stonehold investment (Note 3)	184,361	60,942
JOVO investment (Note 3)	9,002	12,702
GNL Quebec investment (Note 3)	6,102	7,449

Note 1: Hongbo Mining is a subsidiary of the Company engaged in exploration, development, production and sale of crude oil in China. Hongbo Mining'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 Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau* (陝西延長石油(集團)有限責任公司(延長油礦管理局)) ("Yanchang"). The average unit selling price was calculated using the net sales amount and net sales volume which exclude Yanchang's 20% share in sales. Gross sales volume equals to the net sales volume plus the share of 20% of crude oil attributable to Yanchang.

Note 2: In FY2018, Hongbo Mining had successfully drilled 13 wells, among which, as at 31 March 2019, 12 wells had been completed and the remaining 1 was pending for completion.

Note 3: Please refer to note 4 to the consolidated financial statements and the section headed "Business Review" in this annual report for further information.

* For identification purposes only

FINANCIAL AND BUSINESS HIGHLIGHTS

In FY2018, the Company and its subsidiaries made strong progress in terms of financial results and business operations.

SIGNIFICANT INCREASE IN INVESTMENT INCOME AND EBITDA

The investment income increased to HK\$163.3 million in FY2018 from HK\$74.4 million for the financial year ended 31 March 2018 (“**FY2017**”). The increase of investment income is primarily attributable to the return on the investment regarding upstream oil and gas assets, in the form of interest income (at the rate of 8% per annum) and other fair value gain (entitlement to an amount equivalent to 92.5% of the net disposed proceeds) from the Term Loan granted to Stonehold, which holds unconventional shale oil and gas assets in the Eagle Ford core region in the U.S..

The EBITDA changed from HK\$101.7 million in FY2017 to HK\$236.6 million in FY2018. The significant increase of EBITDA is primarily attributable to (i) the increase of sales volume and the recovery of crude oil prices since the second half of 2017, which led to an increase in the revenue of Hongbo Mining, a wholly-owned subsidiary of the Company, and (ii) the increase of investment income as stated above.

BUSINESS DEVELOPMENT

The Company made further investments along the liquefied natural gas (“**LNG**”) value chain during FY2018, and had successfully developed a more diversified and balanced investment portfolio through selective investments regarding energy assets at home and abroad. Besides, the Company set foot in energy investment funds management through entering into a framework agreement with prospective investor in FY2018.

1. *Investment in LNGL*

On 13 June 2018, the Company, through its subsidiary, completed the subscription for 56,444,500 shares allotted and issued by Liquefied Natural Gas Limited (“**LNGL**”), a company principally engaged in developing LNG export terminal projects in the U.S. and in Canada, at an aggregate subscription price of A\$28.2 million (equivalent to approximately HK\$166.8 million) (the “**LNGL Investment**”). Upon completion of the LNGL Investment, the Company held a 9.9% equity interest in LNGL and became its second largest shareholder.

The Company believes that this strategic investment in LNGL will bring not only good financial returns for its shareholders (the “**Shareholders**”) but also provide great competitive advantages for the Company to participate in the opportunity of satisfying the rapidly growing need for natural gas in China.

FINANCIAL AND BUSINESS HIGHLIGHTS

2. Further investment in GNL Quebec

On 30 November 2017, the Company, through its subsidiary, entered into an agreement of purchase and sale with an investment fund for purchasing its interests in LNG Quebec Limited Partnership (“**GNL Quebec**”) at the purchase price of US\$3.15 million (equivalent to approximately HK\$24,633,000) (the “**GNL Quebec Investment**”). Upon completion of the GNL Quebec Investment on 7 February 2018, the Company held a minority interest in GNL Quebec.

On 26 July 2018, the Company, through its subsidiary, invested another US\$1 million (equivalent to approximately HK\$7,800,000) in GNL Quebec to support the project’s ongoing development. GNL Quebec is actively working on the upstream gas supply and off-taking contracts both of which are developing rapidly. Based on the latest market dynamics, it is believed that this project is one of the most feasible LNG exporting terminal projects in Canada.

3. Investment in JUSDA Energy

On 25 September 2018, the Company, through one of its wholly-owned subsidiaries, entered into the agreement for a joint venture (the “**JV Agreement**”) with JUSDA Supply Chain Management International CO., LTD. (準時達國際供應鏈管理有限公司) (“**JUSDA**”) and the management team (the “**Management**”), in relation to the formation of JUSDA Energy Technology (Shanghai) Co Ltd. (準時達能源科技(上海)有限公司) (“**JUSDA Energy**”), to be engaged in LNG logistics services (the “**JUSDA Energy Investment**”). The Company made contribution amounting to HK\$43,937,000 to JUSDA Energy pursuant to the JV Agreement and the completion of such investment took place on 21 December 2018. The Company will hold a 39% equity interest upon completion of all equity contribution in JUSDA Energy.

JUSDA Energy has started to provide stable logistics services to its customers to help them distribute LNG from domestic LNG receiving terminals or source LNG globally using ISO containers. The Company believes that JUSDA Energy’s business model is notably differentiated from other market players by providing only logistics services instead of doing both trading and logistics, which makes JUSDA Energy a focused service provider on the market.

JUSDA Energy will benefit from the extensive network of natural gas resources of the Company, which will give its customers access to LNG resources in the North America and the Asia Pacific Region. JUSDA, as the sole logistics chain management platform designated under Foxconn Technology Group, has a wide container transportation network and strong bargaining power among the industry, which will provide strong support to JUSDA Energy in improving its LNG logistics services and reducing relevant costs.

FINANCIAL AND BUSINESS HIGHLIGHTS

4. Management of Energy Investment Fund

On 20 November 2018, as a significant step and part of its principal activity of global energy assets investment and management, the Company and its subsidiary, Hengqin Harmony Rongtai Investment Management Limited* (橫琴和諧榮泰投資管理有限公司) (“**Rongtai Investment Management**”), set foot in energy investment funds management through entering into a framework agreement (the “**Framework Agreement**”) with Yantai Jereh Petroleum Service Group Co., Ltd.* (煙台傑瑞石油服務集團股份有限公司) (“**Jereh**”) for cooperation on the establishment, operation and management of an energy investment fund (the “**Energy Investment Fund**”). The Energy Investment Fund will be primarily focusing on investments along China’s natural gas value chain as well as other energy-related industries. The expected size of the Energy Investment Fund is RMB3 billion to RMB5 billion, where Jereh, as a cornerstone investor, proposes to make a capital contribution of RMB1 billion. Rongtai Investment Management will be responsible for the operation and management of the Energy Investment Fund.

The establishment of the Energy Investment Fund will allow both parties to explore projects with promising investment returns in energy industries. The Company believes that Jereh’s in-depth knowledge in energy related industries will help the Energy Investment Fund to maximize returns of investments.

For details of the financial results and business operations of the Company and its subsidiaries during FY2018 and the relevant analysis, please refer to the section headed “Business Review” in this annual report.

Note: For the purpose of this annual report, unless otherwise indicated, exchange rates used are for the purpose of illustration only and do not constitute a representation that any amount has been, could have been or may be exchanged at such rate or any other rate or at all on the date or dates in question or any other date. In respect of information of exchange rates that have been previously disclosed in the Company’s announcements, the same exchange rates as disclosed in the respective announcements have been used herein.

* For identification purposes only

CHAIRMAN'S STATEMENT

Dear shareholders,

On behalf of the board (the "**Board**") of directors (the "**Directors**") of the Company, I hereby report to you the annual results of the Company and its subsidiaries for FY2018.

The Company is mainly engaged in global energy assets investment and management. The Company's objective is to achieve superior risk-adjusted returns by making privately negotiated investments primarily in the energy sectors, which is a significant component of virtually all major economies. The Company's portfolio of six active investments with a strong emphasis on China and North America's low-cost oil basins and strategic LNG terminal projects makes it well placed to take advantage of the dynamic global energy market.

Overall, the Company and its subsidiaries made strong progress in terms of financial results in the past financial year. On topline, the sales revenue increased to HK\$168.0 million in FY2018 from HK\$123.4 million for FY2017, and the investment income increased to HK\$163.3 million in FY2018 from HK\$74.4 million for FY2017. Accordingly, the EBITDA increased significantly to HK\$236.6 million in FY2018 from HK\$101.7 million in FY2017.

During the first three quarters of 2018, oil price experienced a significant recovery with Brent average priced at US\$72.61/bbl and reaching US\$86.29/bbl that had not been seen since 2014 in early October. This is a result of balance of supply and demand in oil market. The price was not stable throughout FY2018, which reversed in the fourth quarter of 2018 but edged back up in the first quarter of 2019.

While the macro environment in FY2018 was certainly turbulent, the Company's portfolio companies in the upstream sector continued to focus on execution and operation efficiency in an environment with oil price fluctuation. Through operation improvement, cost control and increase in reserve and production over the past years, Hongbo Mining has achieved a very impressive performance with production and sales revenue increased year by year. In FY2018, its production increased by 7%, and sales revenue increased by 36% as compared with FY2017, with average unit production cost slightly decreased by US\$1.6 per barrel. Benefiting from the improvement of the above factors and the recovering of oil prices, the net present value of the oilfield assets increased significantly from US\$115 million at the time of the acquisition to US\$249 million. Another project the Company invested in the upstream sector is a shale oil project in Eagle Ford, U.S., which was completed in FY2017, again at an attractive consideration/2P reserves ratio equal to only US\$7.2 per barrel. This investment is in line with the Company's "low-cost acquisition" investment strategy. The total net production and revenue of the shale oil project in Eagle Ford for 2018 were approximately 962,000 boe and US\$48.2 million, respectively.

CHAIRMAN'S STATEMENT

Regarding the upstream portfolios, the Company will remain focused on growing our shareholder value in two principal ways. On one hand the Company seeks to drive operational improvements and identify attractive growth opportunities within these upstream portfolios; on the other hand the Company is monitoring the environment for potentially exiting its mature investments and will take advantage of attractive windows to crystalize value.

As for the global LNG market, it continued to strengthen in 2018 with delivery volume reaching 319 million tons, an increase of 27 million tons as compared to 2017. Japan remains the world's largest importer of LNG, followed by China and Korea. Since 2017, the Company had stepped into the LNG industry with a focus on Chinese domestic market with the strong belief that natural gas will be the most attractive energy sector in China. The natural gas market in China has grown continuously in 2018, and the annual consumption increased by 18.1% as compared to 2017. On the supply side, natural gas imports increased by 31.9% as compared to 2017. The Company made further investments along the LNG value chain during FY2018, and had successfully developed a more diversified and balanced investment portfolio through selective investments regarding energy assets at home and abroad.

JOVO, which the Company invested in FY2017, is principally engaged in clean energy businesses, including importing, processing and sale of LNG and LPG in China. As the first non-state-owned LNG receiving terminal operator in China, JOVO's LNG terminal has a nameplate capacity of 2 mmtpa. GNL Quebec, which the Company initially invested in the same financial year, owns and operates one of the largest Canadian LNG export terminals with a planned capacity of 11 mmtpa, and is one of the most feasible LNG export projects in Canada. In FY2018, the Company has injected an additional US\$1 million investment into GNL Quebec to support ongoing project development. LNGL, another portfolio the Company invested in FY2018, operates the Magnolia LNG project in Louisiana of the U.S. The project has a designed LNG export capacity of 8.8 mmtpa, and has obtained all regulatory approvals from the U.S. Department of Energy and Federal Energy Regulatory Commission. LNGL is recognised as one of the most viable greenfield LNG export terminal projects in the U.S. JUSDA Energy, in which the Company also invested in FY2018, is an independent logistic services provider which enables small-scale LNG trading globally. JUSDA Energy is expected to benefit from the extensive network of natural gas resources of the Company, and will give its customers access to LNG resources in North America and the Asia Pacific Region. It will also benefit from the wide container transportation network of JUSDA, the sole logistics chain management platform designated under Foxconn Technology Group, which will provide strong support to JUSDA Energy in improving its LNG logistics services and reducing relevant costs.

We believe all these investments have demonstrated our investment strategy along the whole value chain. As we are looking for more investment opportunities, we will also be helping portfolio companies to create synergies for their business for the next step. We will continue to, through our investments, help to supply LNG for Chinese market. Also, we want to expand our investment to regions that are similar to China and replicate the business model that was successful in China.

CHAIRMAN'S STATEMENT

In order to maintain the attractiveness of the Company to investors in the current macro environment, a clear focus on both maximizing investment performance and maintaining a flexible capital structure is imperative. We intend to look for suitable capital raising channels which may include leveraging both equity and/or debt markets, as well as other financing possibilities. At the end of 2018, we set foot in energy funds management through entering into the Framework Agreement with Jereh for cooperation on the Energy Investment Fund. With the Energy Investment Fund being raised, we expect new limited partners coming in and substantial pace of fundraising in the 2019 financial year.

With your strong supports to the Company, together with its mature investment strategies, sophisticated cross-border transaction capabilities and in-depth knowledge of the global energy market, the Company has best positioned itself to grasp the industry momentum brought by China's energy structural reform and the dynamic changes of the global natural gas market, and is committed to becoming the best cross-border energy assets investment manager in the region. I believe the Company will achieve great success in the 2019 financial year and beyond.

Wang Jingbo

Chairman and Chief Executive Officer

Hong Kong
21 June 2019

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW

The principal activities of the Company and its subsidiaries

The Company is an investment holding company and its principal activity is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consist of upstream oil and gas business, LNG liquefaction and exporting, LNG importing, processing and sales, and LNG logistics services, as well as related energy investment fund management.

Summary of key investment portfolios

1. Investment in upstream crude oil assets

The Company had made an acquisition of an upstream crude oil asset in 2016 at favorable costs and completed the investment in another upstream shale oil project in 2017. Benefiting from the operation improvement and recovering of oil prices, the net present value of the oilfield assets increased significantly.

1.1 Hongbo Mining Investment

Hongbo Mining, one of the upstream portfolios, is the Company's wholly-owned subsidiary and is engaged in exploration, development, production and sale of crude oil in China. The Company completed the acquisition of Hongbo Mining in July 2016 at the consideration of RMB558.88 million (equivalent to approximately HK\$652 million) (the "**Hongbo Mining Acquisition**").

Under the exploration and production cooperation contract entered into between Hongbo Mining and Yanchang, Yanchang (as the mineral right owner) and Hongbo Mining (as the operator) cooperate to explore for crude oil in Block 212 and Block 378 which together cover a region of 591 km² in Inner Mongolia; and Hongbo Mining and Yanchang are entitled to 80% and 20% of the sale proceeds (net of any sales related taxes), respectively. Block 212 had obtained from the Ministry of Land and Resources of the People's Republic of China a 15-year valid production permit covering Unit 2, Unit 19 and other areas in Block 212 in May 2017. Besides, Block 212 and Block 378 are entitled to exploration permit which are renewable for a term of two years after expiration. The current exploration permit in respect of Block 212 expired on 5 March 2019 with the new exploration permit being applied and processed by the Ministry of Natural Resources of the People's Republic of China, and the current exploration permit in respect of Block 378 will expire on 9 November 2019.

Starting from FY2017, the upstream oil industry experienced a substantial business cyclical upturn. Oil price experienced a significant recovery during the first three quarters of 2018, with Brent average priced at US\$72.61/bbl and in early October reaching US\$86.29/bbl that had not been seen since 2014. The price was not stable throughout FY2018, which reversed in the fourth quarter of 2018 but edged back up in the first quarter of 2019 with average price of US\$63.72/bbl. In view of the optimistic oil price trend at the beginning of 2018, Hongbo Mining drilled 13 wells as planned during FY2018 (including 3 wells drilled from the end of March 2018), among which, 12 wells had been completed and had achieved the anticipated target formations with a success rate of 100%, and the remaining 1 was pending for completion.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

1. Investment in upstream crude oil assets (continued)

1.1 Hongbo Mining Investment (continued)

As a result, in FY2018, Hongbo Mining's oil production volume increased by approximately 6.8% to approximately 387,513 barrels; gross and net oil sales volume increased by approximately 9.3% to approximately 390,479 barrels and 312,384 barrels, respectively, and gross revenue (equals to the net revenue from sale of crude oil plus the share of 20% crude oil attributable to Yanchang) and net revenue from sales of crude oil increased by approximately 36.2% to approximately HK\$210.0 million and HK\$168.0 million, respectively, as compared with FY2017.

The average unit production cost decreased by HK\$11 per barrel, or approximately 4.4%, from approximately HK\$252 per barrel (equivalent to US\$32.3 per barrel) in FY2017 to approximately HK\$241 per barrel (equivalent to US\$30.7 per barrel) in FY2018 due to continuous cost control and performance improvement. Besides, as the industry recovers, normally the cost of various operation services will also increase. Accordingly, the average unit production cost before depreciation and amortization increased by HK\$10 per barrel, or approximately 9.7%, from HK\$103 per barrel (equivalent to US\$13.1 per barrel) in FY2017 to HK\$113 per barrel (equivalent to US\$14.4 per barrel) in FY2018.

The following table provides a recap of Hongbo Mining's key operational metrics and product prices for the periods indicated.

	Year ended 31 March	
	2019	2018
Average daily gross production volume (barrels)	1,076	1,007
Average daily gross sales volume (barrels)	1,085	993
Average unit production cost before depreciation and amortisation (HK\$ per barrel)	113	103
Average unit production cost (HK\$ per barrel)	241	252
Average unit selling price (HK\$ per barrel)	518	432

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

1. Investment in upstream crude oil assets (continued)

1.1 Hongbo Mining Investment (continued)

The summary of Hongbo Mining's exploration and development expenditures incurred is as follows:

	Summary of expenditures incurred for the year ended 31 March			
	2019		2018	
	Number	Cost (HK\$'000)	Number	Cost (HK\$'000)
Wells drilled during the year				
Oil producers (Note)	13	61,104	22	87,092
Total	13	61,104	22	87,092
Fracturing workover	4	2,453	–	–
Geological and geophysical costs	–	2,029	–	1,343

Note: In FY2018, Hongbo Mining had successfully drilled 13 wells. As at 31 March 2019, 12 of them had been completed and the remaining 1 was pending for completion.

Based on the reserves estimates as at 31 March 2019 as reviewed by independent technical consultants, the net 1P reserves of Hongbo Mining were 9.1 million barrels at stock tank conditions (“MMstb”), representing a slight decrease of 7.1% from the net 1P reserves as at 31 March 2018; the net 2P reserves were 15.3 MMstb, representing a slight decrease of 1.3% from the net 2P reserves as at 31 March 2018. This is due to the fact that Hongbo Mining had not drilled any exploration well during FY2018, and thus there is no new reserves discovered. However, the PDP portion of the 1P as at 31 March 2019 (5.6 MMstb) increased by 7.7% comparing to the PDP reserve as at 31 March 2018 (5.2MMstb), which is due to the outstanding results generated from developing old areas.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

1. Investment in upstream crude oil assets (continued)

1.1 Hongbo Mining Investment (continued)

The below are the summary and review of the reserves and resources of Hongbo Mining as at 31 March 2019 and 31 March 2018, as conducted by the independent technical consultants, Gaffney, Cline & Associates (“GCA”):

	As at 31 March 2019		As at 31 March 2018	
	Gross (MMstb)	Net (MMstb)	Gross (MMstb)	Net (MMstb)
Proved (1P)	11.4	9.1	12.3	9.8
Proved + Probable (2P)	19.1	15.3	19.4	15.5
Proved + Probable + Possible (3P)	23.7	18.9	26.6	21.3
Contingent resources (1C)	2.1	1.6	0.49	0.39
Contingent resources (2C)	3.5	2.8	0.71	0.57
Contingent resources (3C)	5.6	4.5	1.67	1.34
Prospective resources	9.7	7.76	9.7	7.76

Note: The reserve estimates and the future net revenue have been prepared in accordance with generally accepted petroleum engineering and evaluation principles set forth in the Standards Pertaining to the Estimating and Auditing of Oil and Gas Reserves Information promulgated by the Society of Petroleum Engineers. Independent technical consultants used standard engineering and geosciences methods or a combination of methods, including performance analysis, volumetric analysis, and analogy, that it considered to be appropriate and necessary to classify, categorize, and estimate volumes in accordance with the 2007 PRMS (the Petroleum Resources Management System published by the Society of Petroleum Engineers, American Association of Petroleum Geologists, World Petroleum Council, and Society of Petroleum Evaluation Engineers in March 2007) definitions and guidelines. These reserve amounts are estimates only and should not be construed as exact quantities.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

1. Investment in upstream crude oil assets (continued)

1.2 Stonehold Investment

The Company had widened its global footprint in the upstream oil sector by successfully completing the investment in Stonehold in September 2017.

Stonehold holds certain world-class unconventional shale oil and gas assets, covering approximately 23,754 gross acres (9,090 net acres) across Dimmit and La Salle counties in the Eagle Ford region of South Texas of the U.S.. The area of the target assets (the “**Target Assets**”) is liquid-rich, and the majority of the reserves are crude oil and natural gas liquid. Based on the information provided by Stonehold, the Target Assets consist of 197 producing wells currently, and the total net production and revenue of the Target Assets for the 2018 were approximately 962,000 boe ^{Note} and US\$48.2 million, respectively.

On 14 August 2017 (local time in Houston, Texas, the U.S.), the Company and Think Excel Investments Limited (“**Think Excel**”), a wholly-owned subsidiary of the Company, entered into the credit agreement (the “**Credit Agreement**”) with Stonehold, pursuant to which, the Company and Think Excel have conditionally agreed to grant the Term Loan to Stonehold for the purpose of financing the acquisition of the Target Assets and the subsequent operations of such assets by Stonehold. Stonehold is a company wholly owned and solely controlled by Breyer Capital L.L.C.. The principal amount of the Term Loan shall not exceed (i) the initial payment with an amount of US\$165.0 million (approximately HK\$1,291.1 million) on 26 September 2017; (ii) thereafter, US\$10 million (approximately HK\$78.3 million); and (iii) any guarantee payment made by the Company and Think Excel to Stonehold in respect of the senior debt to be obtained from commercial bank(s). The unpaid principal amount from time to time shall bear interest at the rate of 8% per annum (after the making of or the allocation of any applicable withholding tax), with an additional interest of an amount equal to 92.5% of the disposal proceeds received or recovered by Stonehold in respect of disposal of the Target Assets after deducting outstanding principals and interests as well as relevant fees and expenses. The Term Loan shall be payable to the Company and Think Excel in full on the maturity date, which falls 10 years after 26 September 2017.

On the same date of the Credit Agreement, Stonehold entered into an acquisition agreement (the “**Acquisition Agreement**”) with Stonegate Production Company, LLC (“**Stonegate**”), pursuant to which, Stonegate has conditionally agreed to sell and Stonehold has conditionally agreed to purchase the Target Assets. All Target Assets are non-operated oil and gas assets of Stonegate (the “**Stonegate Acquisition**”).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

1. Investment in upstream crude oil assets (continued)

1.2 Stonehold Investment (continued)

On 26 September 2017 (local time in Houston, Texas, the U.S.), the initial payment of the Term Loan with an amount of US\$165.0 million (approximately HK\$1,291.1 million) under the Credit Agreement was released to Stonehold and the acquisition of the Target Assets by Stonehold from Stonegate was consummated in accordance with the terms of the Acquisition Agreement, and a subsequent payment of the Term Loan with an amount of US\$5.0 million (approximately HK\$39.0 million) has been released to Stonehold on 22 November 2017.

During 2018, oil market has shown a very positive sign of recovery with global inventory dropped below 5-year average. With the demand getting close to 100m bbl/day, the Company believes that the market has shifted into a balanced state with steadily growing price, which will create great value for upstream assets globally. Accordingly, Stonehold drilled more wells following the uprising oil price and effectively controlled the operation cost in order to turn more proved undeveloped (“PUD”) reserves to proved developed producing (“PDP”) reserves. Based on the information provided by Stonehold, efficient cost control has resulted in a cash cost, which includes all operating costs and general administrative expenses of below US\$15.9 per boe for the Target Assets.

The income generated from the Term Loan in the form of interest income has provided the Company with a stable and considerable revenue with an amount of US\$13.6 million in FY2018. In addition, the Company believes that any increase in the reserve and valuation of the Target Assets may increase the expected returns for the Shareholders upon disposal of the Target Assets by Stonehold in the future in an amount equivalent to 92.5% of any net disposal proceeds which will go to the Company under the Credit Agreement, and the corresponding estimated fair value gain as at 31 March 2019 is US\$9.1 million.

For details of the Term Loan and the Credit Agreement, please refer to the announcements of the Company dated 15 August 2017, 27 September 2017 and 28 February 2018, and the circular of the Company dated 29 September 2017 published on the website of The Stock Exchange of Hong Kong Limited (the “**Stock Exchange**”) (<http://www.hkexnews.hk/>).

Note: The barrel of oil equivalent, an energy unit based on the level of energy released by one barrel of crude oil.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

2. Investment regarding LNG business along the value chain

To roll out the existing strategies, the Company, through its subsidiaries, has also made reasonable expansion of the business portfolio and business model in order to capture the market opportunities and dynamics.

Since FY2017, the Company had stepped into the LNG industry with a focus on Chinese domestic market with the strong belief that natural gas will be the most attractive energy sector in China. The natural gas market in China has grown continuously in 2018, and the annual consumption increased by 18.1% as compared to 2017. On the supply side, natural gas imports increased by 31.9% while domestic production increased 7.5% as compared to 2017. The Company will continuously search for investment opportunities in order to capture the opportunities brought by the growing Chinese natural gas market.

2.1 JOVO Investment

On 28 July 2017, Valuevale Investment Limited, a wholly-owned subsidiary of the Company, completed the subscription of shares allotted and issued by Jiangxi Jovo Energy Company Limited* (江西九豐能源有限公司) (“**JOVO**”), which is principally engaged in clean energy businesses, including importing, processing and sale of LNG and liquefied petroleum gas (“**LPG**”) in China, at the consideration of RMB100 million (equivalent to approximately HK\$115.2 million).

According to the information provided by JOVO, JOVO’s operational performance remained robust in 2018, with its sales volume and revenue increased stably as compared to 2017. As for LNG imports, JOVO delivered more than 1 million tons to end-users which represents another big jump on a year-to-year basis. As the first non-state-owned LNG receiving terminal operator in China, JOVO has benefited from China’s coal-to-gas conversion program and this trend is still continuing in the coming years. JOVO’s LNG terminal has a nameplate capacity of 2 mmtpa and, through efficiency improvement, the terminal is steadily reaching its capacity. In the winter of 2018, LNG spot market JKM price dropped to the \$4-5/mmbtu range but the LNG price in China stayed at \$10/mmbtu above. Unlike other terminal operators who have been filled up with long term contracts, JOVO has excess capacity to capitalize this price dislocation opportunity.

In September 2018, JOVO filed application for its initial public offering (the “**IPO**”) in China, which the Company believes will not only provide good returns for its shareholders, but also elevate the investment of the Company to a new level. JOVO plans to use proceeds from IPO to purchase two state-of-art mid-size LNG vessels. This will further expand its LNG business in terms of volume and coverage area, and will position JOVO in a very competitive place in a more flexible LNG trading world.

The Company strongly believes that JOVO’s performance is in line with its expectation and the high demand of gas supply in China will keep JOVO growing at a fast speed. Also, being internationally recognized, JOVO is expanding its business to South East Asian region and trying to apply its successful business model over there.

* For identification purposes only

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

2. Investment regarding LNG business along the value chain (continued)

2.2 GNL Quebec Investment

On 30 November 2017, the Company, through its subsidiary, entered into an agreement of purchase and sale with an investment fund for purchasing its interests in GNL Quebec at the purchase price of US\$3.15 million (equivalent to approximately HK\$24,633,000). On 26 July 2018, the Company made a subsequent investment of US\$1 million (equivalent to approximately HK\$7,800,000) to support the project's ongoing development. The Company holds minority interest in GNL Quebec.

According to the information provided by GNL Quebec, GNL Quebec, through its wholly-owned subsidiary, is developing a state-of-the-art and low-carbon-emission LNG exporting terminal (the “**Terminal**”) project with a maximum nameplate liquefaction capacity of up to 11 million tons per annum, which is one of the largest Canadian LNG export terminals under development, and a 750-km natural gas pipeline (the “**Pipeline**”) to connect the Terminal to TransCanada's Canadian Mainline in Eastern Ontario. The Terminal is designed to receive, liquefy and export up to 1.55 billion standard cubic feet of natural gas per day (equivalent to approximately 15.4 billion cubic meters per year) from gas supply sources in North America and is well-located to deliver cost-competitive LNG to Asia, Europe and South America, etc.

The project of the Terminal has continued to make positive progress on key milestones to increase momentum and advance towards FID. It has advanced its technical/regulatory process, upstream gas supply sourcing and downstream LNG marketing engagement. The Pipeline project is also making key milestones towards the development of the Terminal project. The Company believes that, with the additional facilitation of Pipeline project, GNL Quebec will have a more competitive source of natural gas supply.

Construction of the Terminal and the Pipeline is expected to start in the first and third quarter of 2021, respectively.

2.3 LNGL Investment

On 13 June 2018, the Company, through its subsidiary, completed the subscription for 56,444,500 shares allotted and issued by LNGL, a company principally engaged in developing LNG export terminal projects in the U.S. and in Canada, at an aggregate subscription price of A\$28.2 million (equivalent to approximately HK\$166.8 million). Upon completion of the LNGL Investment, the Company held a 9.9% equity interest in LNGL and became its second largest shareholder. The LNGL Investment monies were principally used to support the ongoing downstream LNG offtake marketing efforts focusing on the Magnolia LNG project of LNGL (the “**Magnolia LNG**”) and for general corporate purposes.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

2. Investment regarding LNG business along the value chain (continued)

2.3 LNGL Investment (continued)

According to the information provided by LNGL, the Magnolia LNG project, located in Lake Charles of Louisiana, the U.S., with planned capacity of 8.8 mmtpa, is recognized as one of the most viable greenfield LNG projects in the U.S.. The project has obtained all required permits and approvals from U.S. Federal Energy Regulatory Commission and U.S. Department of Energy. LNGL continued its emphasis on signing long-term offtake contracts for Magnolia LNG project while ensuring that its best-in-class project execution and delivery strategy is fully ready to meet customer needs arising in the LNG market. Most LNG industry participants are bullish on the prospects for execution of new long-term offtake agreements in 2019. Consistent with this thesis, active negotiations for the capacity of the Magnolia LNG project continue with focus on Asian and European customers.

On 31 December 2018, Magnolia LNG filed an application with the U.S. DOE Office of Fossil Energy to increase the quantity of authorized exports of domestically produced LNG to nations with and without a free-trade agreement to 8.8 mtpa, up from the current 8.0 mtpa approved level.

The Company believes that the Magnolia project is very market competitive in terms of pricing. Along with proper execution and delivery strategy, mature regulatory status, and financing plans, the Magnolia LNG project presents buyers with a very attractive commercial opportunity against other projects.

2.4 JUSDA Energy Investment

On 25 September 2018, the Company, through one of its wholly-owned subsidiaries, has entered into the JV Agreement with JUSDA and the Management, in relation to the formation of JUSDA Energy, to be engaged in LNG logistics services. The Company made contribution of HK\$43,937,000 to JUSDA Energy pursuant to the JV Agreement and the completion of such investment took place on 21 December 2018. The Company will hold a 39% equity interest upon completion of all equity contribution in JUSDA Energy.

JUSDA Energy will benefit from the extensive network of natural gas resources of the Company, which will give its customers access to LNG resources in the North America and the Asia Pacific Region. JUSDA, as the sole logistics chain management platform designated under Foxconn Technology Group, has a wide container transportation network and strong bargaining power among the industry, which will provide strong support to JUSDA Energy in improving its LNG logistics services and reducing relevant costs.

JUSDA Energy's business plan has been successfully executed after its formulation, and JUSDA Energy has started to provide stable logistic services to customers. The recent performance of the business volume showed its potential of fast expansion in near future. The Company believes the business model of JUSDA Energy is very competitive since there is a lack of logistic services for small scale LNG trading in the market.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Summary of key investment portfolios (continued)

2. Investment regarding LNG business along the value chain (continued)

The Company believes the existing investments perfectly match the business strategy of the Company and have achieved the first step of the key layout of natural gas import and export, and will bring the Company not only good financial returns but also great competitive advantages to participate in the opportunity of satisfying the rapidly growing need for natural gas in China.

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

For details of the above transactions, please refer to the Company's voluntary announcements dated 17 July 2017, 31 July 2017, 8 February 2018, 4 June 2018, 13 June 2018, 25 September 2018 and 24 December 2018 published on the website of the Stock Exchange (<http://www.hkexnews.hk>).

Management of Energy Investment Fund

On 20 November 2018, as a significant step and part of its principal activity of global energy assets investment and management, the Company and its subsidiary set foot in energy investment funds management through entering into the Framework Agreement with Jereh, for cooperation on the establishment, operation and management of the Energy Investment Fund. Jereh, listed on the Shenzhen Stock Exchange (Stock code: 002353), is an international group specializing in equipment manufacturing, oil and gas engineering and construction and oilfield technology services.

Rongtai Investment Management, incorporated in the PRC and a wholly-owned subsidiary of the Company, will be responsible for the operation and management of the Energy Investment Fund, including fund raising, investments and information disclosure, etc. Rongtai Investment Management is a private equity and venture capital fund manager registered with the Asset Management Association of China (中國證券投資基金業協會) specializing in private equity fund establishment and investment management in the energy industry.

The Energy Investment Fund will be primarily focusing on investments along China's natural gas value chain as well as other energy-related industries. Pursuant to the Framework Agreement, the expected size of the Fund is RMB3 billion to RMB5 billion, where Jereh, as a cornerstone investor, proposes to make a capital contribution of RMB1 billion, subject to the entering into of formal fund documents by Jereh and other prospective investors and the completion of all approval procedures by Jereh pursuant to applicable laws and constitutional documents.

The establishment of the Energy Investment Fund will allow both parties to explore projects with promising investment returns in energy industries. The Company believes that Jereh's in-depth knowledge in energy related industries will help the Energy Investment Fund to maximize returns of investments. And the Company will expand its energy investment fund management, which can zoom in the scale of energy investment and create various type of revenue for the Shareholder.

For details of the above transaction, please refer to the announcement of the Company dated 30 November 2018 published on the website of the Stock Exchange (<http://www.hkexnews.hk>).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Use of proceeds from the Subscription and the Convertible Note Subscription

On 29 July 2016 (the “**Completion Date**”), the Company completed the RTO which involved, among others, the Hongbo Mining Acquisition, with Titan Gas Technology Investment Limited (“**Titan Gas**”) becoming the majority shareholder of the combined group as a result. Hongbo Mining is treated as the acquirer for accounting purpose. Accordingly, the financial statements of the Company have been consolidated with those of Hongbo Mining since the Completion Date and the consolidated financial statements of the Company have been presented as a continuation of the financial statements of Hongbo Mining.

On the Completion Date, the Company completed, among others, the following transactions:

1. a subscription of certain Ordinary Shares and Preferred Shares (as defined in the RTO Circular) issued by the Company to Titan Gas and other subscribers (the “**Subscription**”); and
2. a subscription of the Convertible Note (as defined in the RTO Circular) issued by the Company to League Way Ltd. (the “**CN Subscription**”).

The following table summarizes the intended use of proceeds and the actual use of proceeds as at 31 March 2019.

Transaction	Gross proceeds HK\$ million	Amount received as at 31 March 2019 HK\$ million	Amount receivable as at 31 March 2019 HK\$ million	Intended use of proceeds as disclosed in the RTO Circular	Intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017)	Actual use of proceeds as at 31 March 2019
Subscription	2,690	2,626 <i>(Note 1)</i>	Nil <i>(Note 1)</i>	<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; 	<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; 	<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;

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Use of proceeds from the Subscription and the Convertible Note Subscription (continued)

Transaction	Gross proceeds HK\$ million	Amount received as at 31 March 2019 HK\$ million	Amount receivable as at 31 March 2019 HK\$ million	Intended use of proceeds as disclosed in the RTO Circular	Intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017)	Actual use of proceeds as at 31 March 2019
				<ul style="list-style-type: none"> - approximately HK\$400 million to finance the repayment of Hongbo Mining's outstanding payables and borrowings; 	<ul style="list-style-type: none"> - approximately HK\$400 million to finance the repayment of Hongbo Mining's outstanding payables and borrowings; 	<ul style="list-style-type: none"> - approximately HK\$376 million was used for repayment of Hongbo Mining's outstanding payables and borrowings;
				<ul style="list-style-type: none"> - approximately HK\$800 million to finance the development plan of the currently explored areas in Block 212; 	<ul style="list-style-type: none"> - approximately HK\$800 million to finance the development plan of the currently explored areas in Block 212 (Notes 1 and 2); 	<ul style="list-style-type: none"> - approximately HK\$194 million was used for the development work in Block 212 (Note 1);
				<ul style="list-style-type: none"> - approximately HK\$450 million for exploration and development of other areas in Block 212; 	<ul style="list-style-type: none"> - 	<ul style="list-style-type: none"> -
				<ul style="list-style-type: none"> - approximately HK\$115 million to finance the operating expenses of Hongbo Mining as well as the Company and its subsidiaries; and 	<ul style="list-style-type: none"> - approximately HK\$111 million to finance the operating expenses of Hongbo Mining as well as the Company and its other subsidiaries (Note 2); and 	<ul style="list-style-type: none"> - approximately HK\$69 million was used for the general working capital of the Company and its subsidiaries;

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Use of proceeds from the Subscription and the Convertible Note Subscription (continued)

Transaction	Gross proceeds HK\$ million	Amount received as at 31 March 2019 HK\$ million	Amount receivable as at 31 March 2019 HK\$ million	Intended use of proceeds as disclosed in the RTO Circular	Intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017)	Actual use of proceeds as at 31 March 2019
				<ul style="list-style-type: none"> - approximately HK\$200 million for expanding the business of the Company and its subsidiaries 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 Company and its subsidiaries through investments in other oil and gas companies or projects (Note 2). 	<ul style="list-style-type: none"> - Approximately HK\$661 million, together with HK\$465 millions from unutilized proceeds of development of Unit 2 and Unit 19 of Block 212, totaling HK\$1,126 million was used in respect of the provision of the Term Loan (Note 2); and - approximately HK\$119 million from unutilized proceeds of development of Unit 2 and Unit 19 of Block 212 and working capital was used for the subscription of shares in Jovo and the transaction expenses.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Use of proceeds from the Subscription and the Convertible Note Subscription (continued)

Transaction	Gross proceeds HK\$ million	Amount received as at 31 March 2019 HK\$ million	Amount receivable as at 31 March 2019 HK\$ million	Intended use of proceeds as disclosed in the RTO Circular	Intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017)	Actual use of proceeds as at 31 March 2019
CN Subscription	250 (being the principal amount of the convertible note)	250	Nil	<p>– approximately HK\$200 million to expand the business of the Company and its subsidiaries by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects; and</p> <p>– approximately HK\$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the Company and its subsidiaries.</p>	<p>– approximately HK\$200 million to expand the business of the Company and its subsidiaries by investment in other oil and gas companies or projects (Note 2); and</p> <p>– approximately HK\$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the Company and its subsidiaries.</p>	<p>– approximately HK\$200 million was used in respect of the provision of the Term Loan (Note 2); and</p> <p>– approximately HK\$50 million was used for the general working capital of the Company and its subsidiaries.</p>

Notes:

- On 29 July 2016, as part of the Subscription, the Company issued a total number of 443,369,176 Preferred Shares to Aquarius Growth Investment Limited (“**Aquarius Investment**”) (the “**Aquarius Subscription**”), among which, 343,369,176 Preferred Shares were fully-paid and 100,000,000 Preferred Shares were partially-paid (the “**Unpaid Preferred Shares**”). With respect to the Unpaid Preferred Shares, Aquarius Investment partially paid an amount of HK\$3,348,000 (the “**Partial Paid Amount**”) and an outstanding amount of HK\$63,612,000 remained unpaid, which became due and payable on 28 July 2017. On 28 September 2017, the Unpaid Preferred Shares, i.e., the whole of the 100,000,000 preferred shares, with the amount of HK\$66,960,000 were forfeited and cancelled. As agreed by the Company and Aquarius Investment, the Partial Paid Amount will not be refunded to Aquarius Investment and the Board has sole discretion on the use of the Partial Paid Amount. In light of such shortfall in the amount of proceeds received as compared to that contemplated at the time of the Subscription, taking into account the actual utilization of proceeds and the circumstances of the operations of the Company and its subsidiaries, the Company has decided that a total amount of HK\$736.39 million from the proceeds, being HK\$800 million minus HK\$63.61 million, be used to finance the development plan of the currently explored areas in Block 212. As at 31 March 2019, save for the amount of HK\$63,612,000 with respect to the aforesaid cancelled and forfeited Preferred Shares, the Company had received all proceeds from the Subscription.

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Use of proceeds from the Subscription and the Convertible Note Subscription (continued)

2. As disclosed in the section headed “Stonehold investment”, on 14 August 2017 (local time in Houston, Texas, the U.S.), the Company and Think Excel, a wholly-owned subsidiary of the Company, entered into the Credit Agreement with Stonehold, pursuant to which, the Company and Think Excel have conditionally agreed to grant the Term Loan to Stonehold. In order to finance the Term Loan under the Credit Agreement, the Company has made the following arrangements for the use of proceeds (after the reallocation as announced on 8 March 2017):
 - (1) extended the use of “Acquisition and development of other oil and gas companies or projects” to “Investment in other oil and gas companies or projects, including but not limited to acquisition and development, equity or debt investment and other forms of investment that the Company considers appropriate and in line with the Company’s business strategy”; and
 - (2) temporarily used the unutilized proceeds of (i) an amount of HK\$532 million planned to be used for the development of Unit 2 and Unit 19 of Block 212 which was not required for any then immediate use and (ii) an amount of HK\$60.5 million planned to be used as working capital which was not required for any then immediate use for making the payment under the Term Loan on closing of the Stonegate Acquisition. The Term Loan has been generating a stable and considerable interest income, part of which had been used to replenish the aforesaid proceeds.

As at 31 March 2019, an aggregate amount of HK\$2,852 million of the proceeds from the Subscription and the CN Subscription had been utilized and there was an unutilized amount of HK\$24 million, which the Company intends to utilize pursuant to the intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017) as set above in upcoming financial years. The Company will, from time to time, taking into account the investment opportunities arising from domestic and overseas markets, assess and evaluate the business needs of the Company and its subsidiaries and the optimal plan for allocation and deployment of the financial resources of the Company and its subsidiaries to strengthen the efficiency and effectiveness of the use of proceeds, including, but not limited to, making further change to the intended use of proceeds as and when appropriate.

For further details of the change in use of proceeds, the entering into of the Credit Agreement and the further change in use of proceeds, please refer to the section headed “Stonehold Investment” and the announcements of the Company dated 8 March 2017, 15 August 2017, 27 September 2017 and 28 February 2018 respectively published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

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/>).

For further details of the Aquarius Subscription, please refer to the Company’s announcements dated 27 October 2015, 20 November 2015, 28 January 2016 and 23 March 2016 respectively, in relation to, among others, the amendments of the subscription agreement entered into between the Company and Aquarius Investment, as one of the subscribers, on 22 June 2015, and the RTO Circular published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

MANAGEMENT DISCUSSION AND ANALYSIS

BUSINESS REVIEW (continued)

Use of proceeds from the Foxconn Subscription

On 22 January 2018, the Company received an aggregate subscription price of HK\$1,485 million from Foxconn Technology Pte. Ltd., High Tempo International Limited, World Trade Trading Limited, Q-Run Holdings Limited, and Q-Run Far East Corporation (collectively known as the “Foxconn Subscribers”) and issued to each of the Foxconn Subscribers 297,000,000 subscription shares at the subscription price of HK\$1.00 per subscription share totalling 1,485,000,000 subscription shares in accordance with the terms and conditions of the subscription agreement (the “Foxconn Subscription”).

For details of the Foxconn Subscription, please refer to the announcements of Company dated 13 December 2017 and 22 January 2018 and the circular of the Company dated 23 December 2017 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

The gross proceeds from the Foxconn Subscription are HK\$1,485 million. The net proceeds from the Foxconn Subscription (after deducting the expenses incurred in the Foxconn Subscription) are approximately HK\$1,483 million.

The Company intends to use and has used the net proceeds from the Foxconn Subscription as follows:

- (i) as to approximately HK\$1,100 million for potential investment in or acquisition of targets in the natural gas industry along the value chain, both in China and in North America (including but not limited to LNG export terminal projects in Canada, LNG receiving terminal projects in China, companies engaged in importing, processing and sale of LNG, and city gas companies or natural gas distribution companies in China), among which HK\$342 million had been utilized for investments in the natural gas industry as at 31 March 2019;
- (ii) as to approximately HK\$300 million to expand the business of the Company through investments in upstream shale gas and/or shale oil assets or projects overseas, especially within high quality basins in North America, which had not been utilized as at 31 March 2019; and
- (iii) as to approximately HK\$83 million to other investments for the future development that is in line with the business strategies of the Company, which had not been utilized as at 31 March 2019.

As at 31 March 2019, an aggregate amount of HK\$342 million had been utilized for investments in the natural gas industry pursuant to the intended use. As for the remaining unutilized amount of HK\$1,141 million the Company intends to follow abovementioned intended uses in the upcoming financial years. The Company will, from time to time, after taking into account the investment opportunities, the business needs and the optimal plan for financial resources allocation, strengthen the efficiency and effectiveness of the use of proceeds and make further announcements as and when appropriate.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK

The Company is committed to achieving superior risk-adjusted returns, through privately negotiated investments in the energy sector, with dedicated investment professionals focusing exclusively on energy but analyzing opportunities across sub-sectors, geographies, and the capital structure. The Company strives to leverage its expertise to build differentiated businesses in the energy value chain where it believes to be valuable. The Company's current investment portfolios are primarily in the upstream crude oil assets and LNG business of the energy industry.

The oil price experienced a significant recovery in the first three quarters of 2018. The average price of Brent crude oil during the period was US\$72.61/bbl and in early October reaching the highest level at US\$86.29/bbl since 2014. This increase in price was driven by the balancing effect of the supply and demand in the oil market. However, the oil price was not very stable throughout FY2018, which reversed in the fourth quarter of 2018 before rebounding slightly in the first quarter of 2019. Given the global economic volatility and the risk of oversupply in the market, the Company believes that the market will continue to be volatile in 2019. With OPEC now re-considering cutting oil production in June and the U.S. beginning to export crude oil to the global market, the Company's view of the oil price for 2019 is rather convoluted. Nevertheless, the Company will continue to implement its hedging strategy when the market is favorable so as to ensure that it can provide cash flow to the investors when oil prices fall, while still be able to benefit from the possible rise in oil prices.

The Company's upstream portfolio investments benefited from a bullish market environment and continued to perform well operationally. The Company will continue to focus on improving shareholder value in the following two ways. First, the Company is committed to driving operational improvement and seeking attractive growth opportunities for its upstream portfolio investments. Secondly, the Company shall pay close attention to the market environment and consider potentially exiting its mature investments so as to seize opportunity and realize value.

As for the global LNG market, it continued to strengthen in 2018 with the delivery volume reaching 319 million tons, an increase of 27 million tons as compared to 2017. Japan remains the world's largest importer of LNG, followed by China and Korea. China again shows a strong increase in demand for natural gas, which accounted for more than 40 billion cubic metres (BCM) in growth. The LNG price in China in the winter of 2018 was not as bullish as in 2017 which is because Chinese buyers had secured enough spot contracts before the winter to meet the peak downstream needs. The Company believes this reasonable pricing environment is good for market development. However, as the market becomes tighter in 2020 which means the market will be lack of flexible spot cargos, the Company believes that Chinese buyers will need to secure more long-term contracts in order to meet the demand increase in coming years.

The Company once again emphasized that its strategy focus is on the LNG sector. The Company's investment strategy is to grasp the huge opportunity arising from China's growing demand for imported LNG supplied from the North America market, which is rich in low-cost shale gas. While it continues to look for investment opportunities along the LNG value chain, the Company expects next year will be a good time for it to create synergies among its invested companies. The Company will continue to, through its investments, supply LNG for the Chinese market. In addition, the Company wishes to expand its investment and replicate its successful business model to regions that are similar to China.

MANAGEMENT DISCUSSION AND ANALYSIS

OUTLOOK *(continued)*

Despite its solid cash position, the Company will also explore suitable capital raising channels, including leveraging both equity and/or debt markets, as well as other financing possibilities. At the end of 2018, the Company and its subsidiary set foot in energy investment funds management by entering into a framework agreement with Jereh, to cooperate in the establishment, operation and management of an energy investment fund. With the set up of the energy investment fund, the prospect of the Company remains promising as it expects new limited partners to join and fundraising activities to be carried out in the 2019 financial year of the Company.

It's worth reflecting on the Company's longer term performance, as the energy industry has faced an incredibly tumultuous time in recent years, with highly volatile commodity prices and dynamic geopolitical environment. The Company's investment strategy has allowed the Company to exploit opportunities arising from industry's distress. Also, the Company is of the view that the energy sector, by its very nature, is a favorable choice for the Company to achieve long-term sustainable growth and prosperity.

The Company believes that it is well positioned for rapid development when attractive investment assets become available. The Company will endeavor to present unique investment opportunities for its Shareholders to gain exposure to a diversified, top quality global energy asset portfolio and strive for substantial returns.

FINANCIAL RESULTS REVIEW

Revenue from sales of goods

The revenue from sales of goods represents the crude oil net sales from Hongbo Mining, a wholly-owned subsidiary of the Company. It increased by HK\$44.6 million, or 36.2%, from HK\$123.4 million in FY2017 to HK\$168.0 million in FY2018.

The increase was mainly due to the increase in crude oil prices and Hongbo Mining's net sales volume. Hongbo Mining's crude oil is priced mainly with reference to Brent Crude oil prices. The average Brent Crude oil price in FY2018 increased to approximately HK\$550 per barrel as compared to approximately HK\$450 per barrel in FY2017. The average unit selling price of Hongbo Mining's crude oil increased to approximately HK\$518 per barrel in FY2018 from HK\$432 per barrel in FY2017, which was consistent with the trend of global oil prices. Hongbo Mining's net sales volume increased to approximately 312,384 barrels in FY2018 from approximately 285,910 barrels in FY2017, which was mainly due to new wells drilled and the impact of fracture in FY2018. For further details on the increase of the production volume, please refer to "Business Review – Hongbo Mining Investment".

Cost of sales of goods

Cost of sales of goods represents the crude oil sales cost from Hongbo Mining, which only increased by approximately HK\$2.1 million, or approximately 2.3%, from approximately HK\$91.2 million in FY2017 to approximately HK\$93.3 million in FY2018 with the gross production volume and gross sales volume of Hongbo Mining in FY2018 increased by 24,831 barrels and 33,092 barrels, or approximately 6.8% and 9.3%, respectively, as compared with that in FY2017.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS REVIEW *(continued)*

Cost of sales of goods *(continued)*

The average unit production cost decreased by HK\$11 per barrel, or approximately 4.4%, from approximately HK\$252 per barrel (equivalent to US\$32.3 per barrel) in FY2017 to approximately HK\$241 per barrel (equivalent to US\$30.7 per barrel) in FY2018 due to continuous cost control and performance improvement. Besides, as the industry recovers, normally the cost of various operation services will also increase. Accordingly, the average unit production cost before depreciation and amortization increased by HK\$10 per barrel, or approximately 9.7%, from HK\$103 per barrel (equivalent to US\$13.1 per barrel) in FY2017 to HK\$113 per barrel (equivalent to US\$14.4 per barrel) in FY2018.

Investment income

Investment income (excluding exchange gain/loss) mainly includes 1) the returns from the Term Loan granted to Stonehold on 26 September 2017, who holds the unconventional shale oil and gas assets in the Eagle Ford core region in the U.S, amounting to approximately HK\$178.1 million, which primarily in the form of interest income (at the rate of 8% per annum) and other fair value gain (entitlement to an amount equivalent to 92.5% of the net disposed proceeds); 2) the fair value gain of approximately HK\$9.7 million from other investments; and 3) the fair value loss resulting from the stock price changes of approximately HK\$14.5 million from the LNGL investment. Besides, the Company recorded exchange loss of approximately HK\$14.1 million for all investments.

Administrative expenses

Administrative expenses decreased by approximately HK\$7.0 million, or approximately 9.5%, from HK\$73.8 million in FY2017 to HK\$66.8 million in FY2018. The decrease in administrative expenses was primarily due to the cost control from the Company.

Taxes other than income tax

Taxes other than income tax increased by approximately HK\$6.9 million, or approximately 83.8%, from approximately HK\$8.2 million in FY2017 to approximately HK\$15.1 million in FY2018, which was mainly due to (i) the increase in resources tax levied on the sale of crude oil attributable to the revenue growth of Hongbo Mining, and (ii) the accrual for petroleum special profit taxation attributable to the oil prices accessing US\$65 per barrel.

Exploration expenses, including dry holes

The exploration expense increased by approximately HK\$0.7 million, or approximately 51.1%, from approximately HK\$1.3 million in FY2017 to approximately HK\$2.0 million in FY2018, which was mainly due to the increase of exploration activities.

Net finance income/(costs)

The Company and its subsidiaries recorded finance income of approximately HK\$24.3 million in FY2017 and approximately HK\$34.9 million in FY2018, the increase of the finance income was primarily due to the increase of bank interest income from the abundant cash owned by the Company, especially after the Foxconn Subscription. The Company and its subsidiaries also recorded finance costs of approximately HK\$23.0 million in FY2017 and approximately HK\$153.5 million in FY2018, and the increase was primarily due to the Convertible Note Redemption in FY2018.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS REVIEW (continued)

Profit before taxation

Profit before taxation significantly increased by approximately HK\$11.2 million from approximately HK\$24.3 million in FY2017 to approximately HK\$35.5 million in FY2018, which was primarily due to the cumulative effects of factors as discussed above in this section.

Income tax

Income tax changed from a deferred tax expense of approximately HK\$9.8 million in FY2017 to a deferred tax expense of approximately HK\$8.1 million in FY2018. The change was mainly due to the movements of the deferred tax assets and liabilities arising from the temporary differences of the provision for abandonment, depreciation of oil and gas properties of Hongbo Mining, amortisation of intangible assets and accrued expenses.

Profit for the year

The profit for the year significantly increased by HK\$12.9 million from approximately HK\$14.5 million in FY2017 to approximately HK\$27.4 million in FY2018, which was primarily due to the cumulative effects of factors as discussed above in this section.

EBITDA

The management of the Company prepared a reconciliation of EBITDA to profit/loss before taxation, its most directly comparable financial performance measures calculated and presented in accordance with financial reporting standards and interpretations issued by the Hong Kong Institute of Certified Public Accountants. EBITDA refers to earnings before interest expenses, income tax, depreciation and amortisation.

The management of the Company believes that EBITDA is a financial measure commonly used as supplemental financial measures by the management of the Company and by investors, research analysts, bankers and others to assess the operating performance, cash flow, return on capital and the ability to take on financing of the Company and its subsidiaries as compared to those of other companies. However, 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 operating performance or profitability of the Company and its subsidiaries. EBITDA fails to account for income tax, interest expenses, depreciation and amortisation.

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

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Profit before taxation	35,482	24,323
Add: Interest expenses	149,336	20,818
Add: Depreciation and amortisation	51,818	56,515
EBITDA	236,636	101,656

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL RESULTS REVIEW (continued)

EBITDA (continued)

The EBITDA changed from HK\$101.7 million in FY2017 to HK\$236.6 million in FY2018. The significant increase of EBITDA is primarily attributable to (i) the increase of sales volume and the recovery of crude oil prices started from the second half of 2017, which led to an increase in the revenue of Hongbo Mining, a wholly-owned subsidiary of the Company, and (ii) the return on the investment regarding upstream oil and gas assets, in the form of interest income and other fair value change gain from the Term Loan granted to Stonehold, which holds unconventional shale oil and gas assets in the Eagle Ford core region in the U.S.

LIQUIDITY AND FINANCIAL RESOURCES

The Company and its subsidiaries finance their operations primarily through a combination of bank and other borrowings and proceeds from the Subscription, the CN Subscription and the Foxconn Subscription. For further details of use of proceeds from the Subscription, the CN Subscription and the Foxconn Subscription, please refer to “Business Review – Use of Proceeds from the Subscription and the CN Subscription” and “Business Review – Use of proceeds from the Foxconn Subscription” in this annual report.

The cash and cash equivalents are mostly denominated in US\$, HK\$ and RMB. As at 31 March 2019, the Company and its subsidiaries had unpledged cash and bank deposits of HK\$1,191.5 million (31 March 2018: HK\$1,786.4 million).

As at 31 March 2019, the Company and its subsidiaries had no outstanding loans (31 March 2018: Nil).

As at 31 March 2019, the Company had Convertible Bond (as defined in the RTO Circular) with carrying amount of approximately HK\$45.7 million (31 March 2018: HK\$67.1 million). The aggregate principal amount of the Convertible Bond is HK\$60.0 million, with maturity date of 30 April 2022 and payable at an interest rate of 1% per annum.

As at 31 March 2019, the Company had no Convertible Note (31 March 2018: HK\$234.2 million). On 4 February 2019, the Company redeemed all of the outstanding Convertible Note, after which the Convertible Note was cancelled and the Company was discharged from all of its obligations under and in respect of the Convertible Note.

Save as the information disclosed above or otherwise in this annual report, the Company and its subsidiaries 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 2019.

The Company and its subsidiaries have not used any financial instrument to hedge potential fluctuation in interest rates and exchange rates.

As at 31 March 2019, the gearing ratio (ratio of the sum of total bank and other borrowings, Convertible Bond and Convertible Note to the total assets) was approximately 1.2% (31 March 2018: 7.1%).

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR RISK MANAGEMENT

The market risk exposures of the Company primarily consist of oil price risk, currency risk, liquidity risk and interest rate risk.

Oil price risk

The principal activity of the Company is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consist of upstream oil and gas business, LNG liquefaction and exporting, LNG importing, processing and sales, and LNG logistics services, as well as related energy investment fund management. Hongbo Mining, a wholly-owned subsidiary of the Company, is engaged in petroleum-related activities in the PRC. The Company also has the Term Loan granted to Stonehold, which is engaged in petroleum-related activities as well. 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 Company. A decrease in such prices could adversely affect the financial position of the Company and its subsidiaries. The Company actively used derivative instruments to hedge against potential price fluctuations of crude oil.

In FY2018, the Company purchased swaps and/or put options for part of the production of Hongbo Mining and Stonehold. Both the swaps and/or the put options place the Company in a hedged position, protecting the Company from a decline in the oil price over the stipulated period of time and preserving the value of the assets of Hongbo Mining and Stonehold. For details of hedging activities with respect to Stonehold's production, please refer to the announcement of the Company dated 3 April 2018 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>). As at 31 March 2019, the Company did not hold any such swaps or put options.

Currency risk

The Company and its subsidiaries are 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\$, US\$, A\$ and RMB.

The Company and its subsidiaries currently do not engage in hedging activities designed or intended to manage foreign exchange rate risk. The Company and its subsidiaries will continue to monitor foreign exchange changes to best preserve the cash value.

Liquidity risk

The Company and its individual operating entities 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 policy of the Company and its subsidiaries 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.

MANAGEMENT DISCUSSION AND ANALYSIS

MAJOR RISK MANAGEMENT (continued)

Interest rate risk

The interest rate risk of the Company and its subsidiaries arises primarily from interest-bearing borrowings. The Company and its subsidiaries regularly review and monitor the mix of fixed and variable rate bank borrowings in order to manage the interest rate risks.

ACQUISITIONS AND DISPOSALS (INCLUDING ANY SIGNIFICANT INVESTMENTS)

Please refer to the section headed “Stonehold Investment” above for the Company’s investment regarding certain oil and gas assets in the U.S. and the section headed “Investment regarding LNG business along the value chain” for the Company’s investment regarding certain natural gas business in China and North America.

Save as disclosed above, the Company or its subsidiaries did not hold any significant investments in FY2018.

CHARGES ON ASSETS OF THE COMPANY AND ITS SUBSIDIARIES

As at 31 March 2019, the Company and its subsidiaries did not have any charges on assets (31 March 2018: Nil).

CONTINGENT LIABILITIES

So far as known to the Directors, as at 31 March 2019, there had been no litigation, arbitration or claim of material importance in which the Company or its respective subsidiaries was engaged or pending or which as threatened against the Company or its respective subsidiaries.

COMMITMENTS

Capital commitments

As at 31 March 2019, the Company and its subsidiaries had capital commitments of HK\$26.5 million (31 March 2018: HK\$23.2 million) contracted but not provided for the acquisition of property, plant and equipment.

Operating lease commitments

As at 31 March 2019, the Company and its subsidiaries had operating lease commitments as lessee of HK\$5.7 million (31 March 2018: HK\$0.4 million).

DIVIDEND

The Directors do not recommend the payment of a final dividend for FY2018 (FY2017: 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 in FY2018.

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES

As at 31 March 2019, the Company and its subsidiaries had 115 (31 March 2018: 113) employees in Hong Kong and the PRC. In FY2018, the total staff costs (including the directors' emoluments) amounted to HK\$44.3 million (FY2017: HK\$33.0 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.

AUDIT COMMITTEE AND REVIEW OF RESULTS

The Audit Committee of the Company was established with written terms of reference in compliance with Rule 3.21 of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). The primary duties of the Audit Committee, among other things, are to oversee the Company's financial report system, risk management and internal control procedures, provide advice and comments to the Board, and monitor the independence and objective of the external auditor. As at 31 March 2019, the Audit Committee of the Company 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.

As at 31 March 2019, 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 consolidated financial statements and the annual report of FY2018.

CHANGE OF COMPANY NAME AND LOGO

The English name of the Company has been changed from "IDG Energy Investment Group Limited" to "IDG Energy Investment Limited" and the Company has adopted "IDG能源投資有限公司*" as the Chinese name of the Company to replace the Chinese name "IDG能源投資集團有限公司*" for identification purpose only. The change of name of the Company was approved by the Shareholders at the special general meeting of the Company by way of a special resolution on 9 July 2018 and was approved by the Registrar of Companies in Bermuda on 20 July 2018.

The logo of the Company has been changed as **IDG Energy Investment** with effect from 19 June 2018.

For details of the change of company name and logo, please refer to the announcements of the Company dated 19 June 2018 and 7 August 2018 and the circular of the Company dated 19 June 2018 published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

CHANGE OF DIRECTORS

On 19 October 2018, Ms. Ge Aiji was appointed as an independent non-executive Director, a member of the remuneration committee and a member and the chairman of the nomination committee of the Company, and on the same date, Prof. Chen Zhiwu resigned from the same positions.

For details of the change of Directors, please refer to the announcement of the Company dated 19 October 2018 published on the websites of the Stock Exchange (<http://www.hkexnews.hk/>) and the Company (<http://www.idgenergyinv.com/>).

* For identification purposes only

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. WANG Jingbo (王靜波) — Chairman

Mr. Wang, aged 41, was appointed as executive director of the Company on 5 August 2016, and appointed as chairman on 26 August 2016. He is also a member of the nomination committee of the Company.

Mr. Wang has over 13 years of experience in research, management and investment in upstream oil and gas industry and other energy sectors, including around 7 years of practical experience in upstream oil and gas companies. Mr. Wang is a founder and a director of Titan Gas Technology Holdings Limited (“**Titan Gas Holdings**”), the immediate holding company of Titan Gas, and has been its executive director, managing director and chief executive officer since 2012. Titan Gas Holdings is principally engaged in development and investments in oil and gas upstream assets globally. During his tenure with Titan Gas Holdings, Mr. Wang has led sourcing, technical assessment, commercial negotiation, and development of a number of investment and acquisition opportunities in oil and gas sector in Mainland China, Middle East and North America. Since 2011, Mr. Wang has also worked at IDG Capital as a partner, where he oversees the firm’s operation and private equity investment. From 2008 to 2011, Mr. Wang worked at D. E. Shaw & Co., a wall-street investment institution in the U.S.. From 2005 to 2008, Mr. Wang was a researcher at Exxon Mobil Corporation, a major integrated oil and gas company. From June 2017 to January 2019, Mr. Wang was a director of Fang Holdings Limited (stock code: SFUN), whose shares are listed on the New York Stock Exchange.

Mr. Wang graduated with a bachelor’s degree in Engineering from the Mechanical Engineering Department of Tsinghua University and obtained a master’s degree in Science, and a Ph.D in Mechanical Engineering from Cornell University as well as a master’s degree in Business and Administration from New York University.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS (continued)

Mr. LEE Khay Kok

Mr. Lee, aged 53, was appointed as an executive director of the Company on 5 August 2016.

Mr. Lee has over 24 years of experience in upstream oil and gas exploration and development, in particular in the fields of production enhancement and fracturing stimulation. He has been the chief engineer of Titan Gas Holdings since 2013, where he was in charge of the firm's engineering and technology management.

From 1994 to 2013, Mr. Lee worked for Schlumberger Limited, a leading company providing a wide range of oilfield services globally from exploration to production. Mr. Lee held several key technical positions during his approximately 19-year tenure at Schlumberger Group, including Geomarket Technical Engineer — Principal (chief technical advisor in Schlumberger company), In Touch Manager — Stimulation (responsible for 24/7 technical support to Schlumberger worldwide stimulation community) and CHG Stimulation Domain Manager (regional chief technical engineer supporting North-east Asia area) providing technical support and advice to Schlumberger Technical personnel or to oil companies. At Schlumberger Group, Mr. Lee was involved in many key oilfield production enhancement projects. His roles in these projects varied from the technical design of the job to field execution and in some cases where he was the engineer in-charge in operations.

Mr. Lee graduated with a bachelor's degree in Mineral and Petroleum Engineering from National Cheng Kung University in Taiwan and obtained a master's degree in Petroleum Engineering from the University of Oklahoma. Mr. Lee was also a recipient of the 1995 Rock Mechanics Award from the U.S. National Committee for Rock Mechanics for his Master's Thesis.

NON-EXECUTIVE DIRECTORS

Mr. LIN Dongliang (林棟梁)

Mr. Lin, aged 56, was appointed as the non-executive director of the Company on 5 August 2016. He is also a member of the audit committee of the Company.

Mr. Lin has presided over a variety of investment projects in the IT industry since 1995 with remarkable success. Prior to joining IDG Capital, Mr. Lin was a Senior Research Fellow at the Development Research Center of the State Council of the PRC. He also previously worked for Citibank New York from 1992 to 1993. Mr. Lin is a general partner of IDG Capital and a director of Titan Gas Holdings, and he is currently a non-executive director of NetDragon Websoft Holdings Limited (a company listed on the Stock Exchange) (stock code: 777). Mr. Lin is also a director of LongShine Technology Co., Ltd.* (朗新科技股份有限公司) (stock code: 300682), and Sichuan Shuangma Cement Co., Ltd.* (四川雙馬水泥股份有限公司) (stock code: 000935), both of which are listed on the Shenzhen Stock Exchange, and a director of Beijing Digital Dafang Science and Technology Co., Ltd.* (北京數碼大方科技股份有限公司) (stock code: 832617), a company having its share quoted on the over the counter market in China.

Mr. Lin graduated with a master's degree in Engineering Management from Tsinghua University.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

NON-EXECUTIVE DIRECTORS *(continued)*

Mr. SHONG Hugo (熊曉鷗)

Mr. Shong, aged 63, was appointed as the non-executive director of the Company on 5 August 2016. He is also a member of the remuneration committee of the Company.

Mr. Shong is Co-Chairman of IDG Capital and also a director of Titan Gas Holdings. Among his many affiliations, Mr. Shong has served on the Board of Trustees of Boston University, the Harvard Business School Asia Advisory Committee and the Leadership Board of the McGovern Institute for Brain Research at MIT. Mr. Shong is a non-executive director of Mei Ah Entertainment Group Ltd., (stock code: 391) and HJ Capital (International) Holdings Company Limited (formerly known as iOne Holdings Limited)(stock code: 982), both of which are listed on the Main Board of the Stock Exchange, and China United Network Communications Group Co., Ltd., whose A shares are listed on the Shanghai Stock Exchange (stock code: 600050).

Mr. Shong graduated with a bachelor degree from Hunan University in 1981. He studied Journalism at the Graduate School of the Chinese Academy of Social Sciences from 1984 to 1986. He was under graduate study at the Fletcher School of Law and Diplomacy from 1987 to 1988 and obtained his Master of Science degree from Boston University's College of Communication in 1987. He also completed the Harvard Business School's Advanced Management Program in the fall of 1996.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. SHI Cen (石岑)

Mr. Shi, aged 43, was appointed as an independent non-executive director of the Company on 5 August 2016. He is also a member of the audit committee and nomination committee of the Company.

Mr. Shi is a partner of Ascendent Capital Partners (Asia) Ltd., which is a private equity investment company focusing on the Greater China market. Prior to joining Ascendent Capital Partners (Asia) Ltd. in April 2011, Mr. Shi was senior vice president of D. E. Shaw & Co., responsible for its Greater China private equity investment business. Prior to joining D.E. Shaw & Co., Mr. Shi served as vice president at CCMP Capital Asia Pte Ltd. (formerly known as JP Morgan Partners Asia), where he focused on buyouts and other private equity investments in China and the Asia Pacific region. He began his career at Goldman Sachs Investment Banking division, where he focused on providing overseas equity offerings and cross-border mergers and acquisitions advice for Chinese companies. Mr. Shi is also a director of Ningxia XiaJin Dairy Group Co., Ltd.* (寧夏夏進乳業集團股份有限公司), a company established in the PRC.

Mr. Shi graduated with a bachelor's degree in Economics, specialising in international finance, and obtained a master's degree in Economics from Tsinghua University.

* For identification purposes only

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS (continued)

Mr. CHAU Shing Yim David (周承炎)

Mr. Chau, aged 55, was appointed as an independent non-executive director of the Company on 5 August 2016. He is also the chairman of the audit committee and remuneration committee of the Company.

Mr. Chau has over 22 years' experience in corporate finance covering projects ranging from initial public offering transactions and restructuring of enterprises in the PRC to cross border and domestic takeover transactions. Mr. Chau was formerly a partner of one of the big four accounting firms in Hong Kong, holding the position as the head of mergers and acquisitions and corporate advisory. He is a member of the Hong Kong Securities and Investment Institute, and a member of the Institute of Chartered Accountants of England and Wales ("ICAEW"), and was granted the Corporate Finance Qualification of ICAEW. He is a member of the Hong Kong Institute of Certified Public Accountant ("HKICPA") and was an ex-committee member of the Disciplinary Panel of HKICPA. Mr. Chau is a member of Jinan Municipal Committee of the Chinese People's Political Consultation Conference ("CPPCC") and Hospital Governing Committee of Pamela Youde Nethersole Eastern Hospital since 1 April 2017.

Mr. Chau is currently an independent non-executive director of seven companies which are listed on the Main Board of the Stock Exchange, namely, Lee & Man Paper Manufacturing Limited (stock code: 2314), Man Wah Holdings Limited (stock code: 1999), China Evergrande Group (stock code: 3333), Evergrande Health Industry Group Limited (stock code: 708), Hengten Networks Group Limited (stock code: 136) and BC Technology Group Limited (formerly known as Branding China Group Limited) (stock code: 863).

Ms. GE Aiji (葛艾繼)

Ms. Ge, aged 54, was appointed as an independent non-executive director, a member of the remuneration committee of the Company and the chairman of the nomination committee of the Company on 19 October 2018.

Ms. GE has over 30 years of experience in the energy industry. She has played pivotal roles in many domestic enterprises' overseas upstream exploration and development projects and led various major international merger and acquisition projects in the upstream oil and gas field. Ms. Ge has been serving as the vice president of Talent Power Group Limited since 2014. From 2012 to 2016, Ms. GE served as a non-executive director of Mining Resource Company of China Great Wall Industry Corporation. In addition, Ms. Ge held several management positions with China National Oil and Gas Exploration and Development Corporation, China National Petroleum Corporation and its affiliated companies.

Ms. Ge graduated from Beijing University of Chemical Technology with a bachelor's degree of Chemical Engineering in 1986 and a master degree of Technical Economics in 1988. Ms. GE also obtained an Executive Master of Business Administration degree from the National University of Singapore in 2007.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SENIOR MANAGEMENT

Mr. WANG Jingbo (王靜波) — Chief Executive Officer

Mr. Wang, aged 41, was appointed as chief executive officer of the Company on 5 August 2016. He is primarily responsible for the Company's overall business development and growth strategies, Board governance and supervision of key management issues. Please refer to the above section headed "Executive Directors" for more detailed information.

Mr. LIU Zhihai (劉知海) — President

Mr. Liu, aged 35, was appointed as the vice president of the Company on 30 September 2016 and subsequently re-designated as president on 2 January 2017. He is primarily responsible for the Company's overall management and business operation, corporate governance, human resource management, as well as public and investor relations.

Mr. Liu has approximately 10 years of experience with energy companies and investments and broad knowledge of the oil and gas industry. He was a co-founder of Titan Gas Holdings and has worked for IDG Capital since 2011, where he headed the firm's oil and gas practice as a managing director and led and participated in several investments in the oil and energy sector. Prior to 2011, he worked as a business analyst at Accenture, covering strategy, mergers and acquisitions and operation optimization projects and consulting services for several major oil and gas companies and national oil companies.

Mr. Liu graduated with a bachelor's degree of Science and a master's degree of Science from the Mathematical School of Peking University.

Mr. TAN Jue (譚崛) — Chief Financial Officer

Mr. Tan, aged 36, was appointed as one of the joint company secretaries and the chief financial officer of the Company on 5 August 2016 and 30 September 2016, respectively. He is primarily responsible for financing, financial reporting, budget planning, internal control, compliance, and financial management operations. He also leads or oversees the Company's major investment transactions.

Mr. Tan has over 12 years of experience in financial management, cross-border mergers & acquisitions, and corporate governance. He joined IDG Capital in 2013 and has been responsible for, as an executive director, the execution of the fund's investment in companies in growth and mature stages and has also gained extensive experiences in the management of portfolio companies in areas of finance, operation, internal control and corporate governance. From 2006 to 2013, he worked for the deals group of PricewaterhouseCoopers Consultants Shenzhen Limited Beijing Branch for 7 years.

Mr. Tan graduated with a bachelor's degree of Economics from Renmin University of China. He is a fellow member of the Association of Chartered Certified Accountants.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

SENIOR MANAGEMENT (continued)

Mr. LEE Khay Kok — Vice President

Mr. Lee, aged 53, was appointed as vice president and the chief Engineer of the Company on 30 September 2016. He is primarily responsible for the Company's engineering management, technical assessment and review, operation overseeing, and technology innovation. Please refer to the above section headed "Executive Directors" for more detailed information.

Mr. HAO Xiang (郝翔) — Vice President

Mr. Hao, aged 31, was appointed as the vice president of the Company on 1 April 2017. He is primarily responsible for the Company's investment business, including sourcing, coordinating, negotiating and executing potential mergers and acquisitions or investment opportunities, as well as acquisition transaction execution and management.

Mr. Hao has always been working in oil and gas industry for many years, including upstream and LNG. Before joining the Company, he was with KKR-Yanchang Global Energy Fund where he has been involved in more than 10 oil and gas investments in various countries across Asia, North America and Europe.

Mr. Hao holds a Master of Science degree in Engineering from University of Pennsylvania and received his bachelor's degree in Materials Science and Engineering from Beihang University.

REPORT OF THE DIRECTORS

PRINCIPAL ACTIVITIES

The principal activity of the Company is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consist of upstream oil and gas business, LNG liquefaction and exporting, LNG importing, processing and sales, and LNG logistics services, as well as related energy investment fund management, etc.

RESULTS AND DIVIDENDS

Details of the results in FY2018 are set out in the consolidated statement of profit or loss on page 109 of this annual report.

The Directors do not recommend the payment of a final dividend in FY2018 (31 March 2018: Nil).

BUSINESS REVIEW

A fair review of the business of the Company as well as a discussion and analysis of the Company's performance during the year as required by Schedule 5 to the Companies Ordinance (Chapter 622 of the laws of Hong Kong), including a discussion of the principal risks and uncertainties facing the Company and an indication of likely future developments in the Company's business, can be found in the section headed "Management Discussion and Analysis" of this annual report. These discussions form part of the report of the directors.

PROPERTY, PLANT AND EQUIPMENT

Details of movements in the property, plant and equipment of the Company and its subsidiaries during the year are set out in note 13 to the consolidated financial statements.

BANK LOANS AND BORROWINGS

Details of bank loans and other borrowings during FY2018 are set out in note 26 to the consolidated financial statements.

FIVE YEAR FINANCIAL SUMMARY

A summary of the results and of the assets and liabilities of the Company and its subsidiaries for the last five financial years is set out on page 5 of this annual report.

REPORT OF THE DIRECTORS

SHARE CAPITAL, CONVERTIBLE BOND AND CONVERTIBLE NOTE

(A) *Summary of outstanding Convertible Bond and Convertible Note*

Convertible Bond

On 28 March 2008, the Company issued the Convertible Bond in the principal amount of HK\$120,000,000 to Tanisca, pursuant to the subscription agreement dated 29 October 2007 (as amended on 28 March 2013, 3 June 2014 and 15 August 2017 (the last amendment between the Company and Titan Gas only), respectively). Tanisca later transferred to Titan Gas the Convertible Bond in the principal amount of HK\$96,832,526, pursuant to a conditional sell and purchase agreement dated 22 June 2015 (as amended on 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016 respectively). Upon completion of the transfer, on 29 July 2016, Tanisca held the Convertible Bond in the principal amount of HK\$23,167,474.

On 25 September 2017, Tanisca converted all the Convertible Bond it held with a principal amount of HK\$23,167,474 into 344,754,077 Ordinary Shares at the conversion price of HK\$0.0672 per conversion share in accordance with the terms and conditions of the Convertible Bond.

On 22 August 2018, Titan Gas transferred the Convertible Bond in the principal amount of HK\$16,832,526 to three entities.

On 18 October 2018, certain holders converted the Convertible Bond in the principal amount of HK\$18,432,526 into 274,293,540 Ordinary Shares at the conversion price of HK\$0.0672 per conversion share in accordance with the terms and conditions of the Convertible Bond.

On 17 December 2018, certain holders converted the Convertible Bond in the principal amount of HK\$18,400,000 into 273,809,523 Ordinary Shares at the conversion price of HK\$0.0672 per conversion share in accordance with the terms and conditions of the Convertible Bond.

For details of the issuance, the amendments and the transfer of the Convertible Bond, please refer to (i) the announcement dated 31 October 2007 and the circular dated 21 November 2007; (ii) the announcement dated 28 March 2013 and the circular dated 30 April 2013, the announcement dated 3 June 2014 and the circular dated 13 June 2014, and the announcement dated 15 August 2017 and the circular dated 16 August 2017; and (iii) the announcements dated 27 October 2015, 20 November 2015, 28 January 2016, 23 March 2016, 28 June 2016 and 29 July 2016, and the RTO Circular of the Company published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

REPORT OF THE DIRECTORS

SHARE CAPITAL, CONVERTIBLE BOND AND CONVERTIBLE NOTE (continued)

(A) *Summary of outstanding Convertible Bond and Convertible Note* (continued)

Convertible Note

On 29 July 2016, the Company issued the Convertible Note with an aggregate principal amount of HK\$250,000,000 to League Way Ltd., pursuant to the convertible note subscription agreement dated 22 June 2015 (as amended on 20 November 2015, 28 January 2016, 23 March 2016 and 28 June 2016 respectively).

On 4 February 2019, the Company redeemed all of the outstanding Convertible Note at the amount of HK\$375 million after receiving the redemption notice from League Way Ltd. (the “**Redemption**”) pursuant to the terms of the Convertible Note. Following the Redemption, the Convertible Note was cancelled and the Company was discharged from all of its obligations under and in respect of the Convertible Note.

For details of the issuance and amendments of the Convertible Note and the Redemption, please refer to the announcements dated 20 November 2015, 28 January 2016, 23 March 2016, 28 June 2016, 29 July 2016 and 4 February 2019, and the RTO Circular of Company published on the website of the Stock Exchange (<http://www.hkexnews.hk/>).

Details of the movements in the Convertible Bond and the Convertible Note during FY2018, and the relevant accounting treatment and the analysis on the financial and liquidity position of the Company are set out in note 27 and note 28 to the consolidated financial statements.

(B) *Dilutive impact of the Convertible Bond and the Convertible Note on the issued Ordinary Shares*

As at 31 March 2019, the outstanding principal amount of the Convertible Bond and the Convertible Note was HK\$60,000,000 and nil respectively. Based on the conversion price of HK\$0.0672 per Ordinary Share for the Convertible Bond, the maximum number of Ordinary Shares issuable by the Company upon full conversion of the Convertible Bond (the “**Conversion**”) will be 892,857,142 Ordinary Shares.

The following table sets out the shareholding structure in terms of Ordinary Shares upon Conversion with reference to the shareholding structure of the Company as at 31 March 2019 and assuming no further issuance of Ordinary Shares by the Company:

REPORT OF THE DIRECTORS

SHARE CAPITAL, CONVERTIBLE BOND AND CONVERTIBLE NOTE (continued)

(B) Dilutive impact of the Convertible Bond and the Convertible Note on the issued Ordinary Shares (continued)

Name of shareholders	As at the 31 March 2019		Immediately following the Conversion	
	Numbers of Ordinary Shares	Percentage of total issued Ordinary Shares	Numbers of Ordinary Shares	Percentage of total issued Ordinary Shares
Titan Gas	2,538,766,246	38.49	2,538,766,246	33.91
Holder of the Convertible Bond (i.e., Titan Gas)	–	–	892,857,142	11.92
			(Note 1)	
Foxconn Subscribers (Note 2)	1,485,000,000	22.51	1,485,000,000	19.83
Lin Dongliang (Note 3)	12,910,000	0.20	12,910,000	0.17
Public shareholders	2,559,230,668	38.80	2,559,230,668	34.17
Total	6,595,906,914	100	7,488,764,056	100

Note 1: Titan Gas will hold 892,857,142 Ordinary Shares converted by the Convertible Bond immediately following the Conversion, representing 11.92% of the then total issued Ordinary Shares. Therefore, upon the Conversion, Titan Gas will hold an aggregate of 3,431,623,388 Ordinary Shares, representing 45.83% of the then total issued Ordinary Shares.

Note 2: The Foxconn Subscribers are Foxconn Technology Pte. Ltd., High Tempo International Limited, World Trade Trading Limited, Q-Run Holdings Limited, and Q-Run Far East Corporation respectively. Each of the Foxconn Subscribers holds 297,000,000 Ordinary Shares.

Note 3: As at 31 March 2019, Mr. Lin Dongliang, a non-executive Director (being a core connected person of the Company as defined under the Listing Rules), held 12,910,000 Ordinary Shares, which are not counted as Ordinary Shares held by public shareholders.

Note 4: The above percentage figures are subject to rounding adjustments. Accordingly, figures shown as totals may not be the arithmetic aggregation of the figures preceding them.

An analysis of the impact on the diluted earning/(loss) per share is set out in note 12 to the consolidated financial statements of this annual report.

Save as disclosed in this annual report, no other Convertible Bond or Convertible Note had been converted for FY2018.

DONATIONS

During the year, the Company and its subsidiaries did not make any charitable donations to any charitable organisations.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws and there are no restrictions against such rights under the laws in Bermuda.

REPORT OF THE DIRECTORS

DIVIDEND POLICY

The Company has adopted a dividend policy (“**Dividend Policy**”), pursuant to which the Company may distribute dividends to the shareholders of the Company by way of cash or shares. Any distribution of dividends shall be in accordance with the Hong Kong law, the bye-laws of the Company, the Bermuda Companies Act 1981 (as amended from time to time) and any other applicable laws, rules and regulations.

The recommendation of the payment of any dividend is subject to the absolute discretion of the Board, and any declaration of dividend will be subject to the approval of the Shareholders. In proposing any dividend payout, the Board shall also take into account, inter alia:

- the Company and its subsidiaries’ actual and expected financial performance;
- shareholders’ interests;
- retained earnings, distributable reserves and contributed surplus of the Company and each of the other members of the Company and its subsidiaries;
- the level of the Company and its subsidiaries’ debts to equity ratio, return on equity and financial covenants to which the Company and its subsidiaries is subject;
- possible effects on the Company and its subsidiaries’ creditworthiness;
- any restrictions on payment of dividends or other covenants on the Company and its subsidiaries’ financial ratios that may be imposed by the Company and its subsidiaries’ financial creditors;
- the Company and its subsidiaries’ expected working capital requirements and future expansion plans;
- liquidity position and future commitments at the time of declaration of dividend;
- taxation considerations;
- statutory and regulatory restrictions;
- general business conditions and strategies;
- general economic conditions, business cycle of the Company and its subsidiaries’ business and other internal or external factors that may have an impact on the business or financial performance and position of the Company; and
- other factors that the Board deems appropriate.

The Dividend Policy will be reviewed from time to time and there is no assurance that a dividend will be proposed or declared in any specific period.

REPORT OF THE DIRECTORS

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

In FY2018, the Company repurchased a total of 46,600,000 ordinary shares of the Company on the Stock Exchange, with an aggregate consideration paid amounting to HK\$55,007,582.20. All the shares repurchased by the Company were subsequently cancelled and the issued share capital of the Company was reduced thereon. The repurchase was effected by the Board for the enhancement of shareholder value in the long term. Details of the shares repurchased are as follows:

Month of repurchase	No. of shares repurchased	Repurchase price per share		Aggregate consideration paid
		Highest price paid HKD	Lowest price paid HKD	
July	42,024,000	1.25	1.03	49,413,724.80
August	4,576,000	1.25	1.20	5,593,857.40
Total	46,600,000			55,007,582.20

Save as disclosed above, neither the Company nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed shares in FY2018.

RESERVES

Details of movements in the reserves of the Company during the year are set out in note 31(a) to the consolidated financial statements.

DISTRIBUTABLE RESERVES

Under the laws of Bermuda, the Company had no reserve available for distribution to shareholders as at 31 March 2019.

MAJOR CUSTOMERS AND SUPPLIERS

During FY2018, the three largest customers accounted for 100% of revenue from sales of goods of the Company and its subsidiaries while the five largest suppliers accounted for approximately 78% of the purchases of the Company and its subsidiaries. In addition, the largest customer accounted for approximately 97% of revenue from sales of goods of the Company and its subsidiaries while the largest supplier accounted for approximately 42% of the purchases of the Company and its subsidiaries.

None of the Directors, their close associates or any shareholders (which to the knowledge of the Directors owned more than 5% of the Company's share capital) had any interest in the largest customers or five largest suppliers mentioned above.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Wang Jingbo (Chairman and Chief Executive Officer)

Mr. Lee Khay Kok

Non-executive Directors

Mr. Lin Dongliang

Mr. Shong Hugo

Independent Non-executive Directors

Ms. Ge Aiji (Appointed on 19 October 2018)

Mr. Shi Cen

Mr. Chau Shing Yim David

Mr. Chen Zhiwu (Resigned on 19 October 2018)

None of the members of the Board is related to one another.

One third of the directors are subject to retirement by rotation at annual general meetings of the Company in accordance with the Company's Bye-laws.

In accordance with Bye-law 83(2), Bye-law 84(1) and Bye-law 84(2) of the Bye-laws, Ms. Ge Aiji, Mr. Wang Jingbo and Mr. Shi Cen will retire from office by rotation and, being eligible, offer themselves for re-election at the forthcoming annual general meeting.

The Company has received annual confirmations of independence from all independent non-executive directors and considers them to be independent. Under the terms of their appointment, the independent non-executive directors are appointed for a specific term and are subject to retirement by rotation in accordance with the Company's Bye-laws.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

Biographical details of the Directors and the senior management of the Company are set out on pages 38 to 43 of this annual report.

DIRECTORS' SERVICE CONTRACTS

The Company has entered into letters of appointment with each Director, pursuant to which each of the executive Directors, non-executive Directors and independent non-executive Directors is appointed for terms of three years, subject to re-election in accordance with Bye-laws of the Company at general meeting.

REPORT OF THE DIRECTORS

DIRECTORS' SERVICE CONTRACTS (continued)

None of the Directors has entered into any service contract with the Company or any of its subsidiaries, which is not terminable by the Company within one year without the payment of compensation (other than statutory compensation).

REMUNERATION POLICY

The Company's remuneration policy is built upon the principle of providing an equitable, motivating and market-competitive remuneration package that can stimulate and drive staff at all levels to work towards achieving the strategic objectives of the Company and its subsidiaries.

The remuneration of the Directors is reviewed by the Remuneration Committee and the Board, having regard to Directors' duties, responsibilities, the operating results and comparable market statistics.

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 in FY2018.

RELATED PARTIES' TRANSACTIONS

Details of related parties' transactions are set out in note 34 to the consolidated financial statements. None of the related party transactions mentioned above constitutes connected transactions/continuing connected transactions under the Listing Rules.

DIRECTORS' INTERESTS IN TRANSACTIONS, ARRANGEMENTS OR CONTRACTS OF SIGNIFICANCE

Save as disclosed in note 34 to the consolidated financial statements, no other transactions, arrangements or contracts of significance in relation to the Company's business to which the Company or any of its subsidiaries, or holding company or fellow subsidiaries was a party and in which any of the Company's Directors or an entity connected with the Directors had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES

At 31 March 2019, the interests and short positions of the Directors in the shares and underlying shares 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 required to be kept by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

(A) Long positions in Ordinary Shares:

Name of Director	Nature of interest	Number of Ordinary Shares	Percentage of the Company's issued Ordinary Shares
Wang Jingbo	Corporate	2,538,766,246 (Note 1)	38.49%
Shong Hugo	Corporate	2,538,766,246 (Notes 1 and 2)	38.49%
Lin Dongliang	Corporate	2,538,766,246	38.49%
	Beneficial	12,910,000 (Notes 1 and 3)	0.20%

Note 1: These shares are held by Titan Gas, a company which is controlled as to 75.73% by Titan Gas Holdings, which is in turn owned as to 35.13% by Standard Gas Capital Limited ("**Standard Gas**"), 49.14% by IDG-Accel China Capital II L.P. ("**IDG-Accel Capital II L.P.**") and IDG-Accel China Capital II Investors L.P. ("**IDG-Accel Investors II L.P.**") (collectively, "**IDG Funds**"), 8.05% by Mr. Wang Jingbo ("**Mr. Wang**") and 6.87% by Kingsbury International Holdings Co., Ltd.* (金世旗國際控股股份有限公司) ("**Kingsbury**"), 0.73% by Zhang Weiwei and 0.08% by Bryce Wayne Lee. Under the SFO, Titan Gas Holdings, Standard Gas and IDG Funds are deemed to have interest in the Ordinary Shares in which Titan Gas has beneficial interest.

Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision-making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. Under the SFO, Mr. Wang is deemed to have interest in the Ordinary Shares in which Titan Gas has interest.

Note 2: All the issued voting shares in Standard Gas are held by Blazing Success Limited ("**Blazing Success**") which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.

Note 3: All the issued voting shares in Standard Gas are held by Blazing Success which in turn is wholly owned by Lee Khay Kok. Blazing Success has granted a power of attorney to the board of directors of Standard Gas which comprise Mr. Wang, Lin Dongliang and Shong Hugo. Under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

The 12,910,000 Ordinary Shares are held by Lin Dongliang beneficially.

* For identification purposes only

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES (continued)

(B) Long positions in the Convertible Bond:

Name of Director	Nature of interest	Number of underlying shares
Wang Jingbo	Corporate	892,857,142 (Note 1)
Shong Hugo	Corporate	892,857,142 (Notes 1 and 2)
Lin Dongliang	Corporate	892,857,142 (Notes 1 and 3)

Note 1: The 892,857,142 underlying shares represented the new Ordinary Shares to be issued upon full conversion of Convertible Bond with an aggregate principal amount of HK\$60,000,000 held by Titan Gas at a conversion price of HK\$0.0672 per Ordinary Shares issued by the Company. As explained in Note 1 of Section (A) above, under the SFO, Mr. Wang is deemed to have interests in the convertible bond in which Titan Gas has interest.

Note 2: As explained in Notes 1 and 2 of Section (A) above, under the SFO, Shong Hugo is deemed to have interest in the shares in which Standard Gas has interest.

Note 3: As explained in Notes 1 and 3 of Section (A) above, under the SFO, Lin Dongliang is deemed to have interest in the shares in which Standard Gas has interest.

Save as disclosed above, as at 31 March 2019, none of the Directors or chief executives of the Company had registered an interest or short position in the shares, underlying shares or debentures of the Company or any of its associated corporations that was required to be recorded pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' interests and short positions in shares and underlying shares" above, at no time during the year were rights to acquire benefits by means of the acquisition of shares in or debentures of the Company granted to any Directors or their respective spouse or children under 18 years of age, or were any such rights exercised by them; or was the Company, its holding company, or any of its fellow subsidiaries or subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY

As at 31 March 2019, the following interests in the issued share capital and underlying shares of the Company were recorded in the register of interests required to be kept by the Company under Section 336 of the SFO:

Name	Capacity/Nature of interest	Number of Ordinary Shares or underlying Ordinary Shares (Note 1)	Percentage of the Company's issued Ordinary Shares (Note 2)
Tanisca Investments Limited (Note 3)	Beneficial owner	344,754,077(L) (Note 3)	5.23%
MO Tian Quan (Note 3)	Interest of controlled corporations	379,507,486(L) (Note 3)	5.75%
Aquarius Growth Investment Limited (Note 5)	Beneficial owner	343,369,176(L) (Note 4)	5.21%
ZHAO Ming (Note 5)	Interest of a controlled corporation	343,369,176(L) (Note 4)	5.21%
Titan Gas Technology Investment Limited (Note 6)	Beneficial owner	3,431,623,388 (L) (Note 6)	52.03%
Titan Gas Technology Holdings Limited (Note 6)	Interest of a controlled corporation	3,431,623,388 (L) (Note 6)	52.03%
Standard Gas Capital Limited (Note 6)	Interest of controlled corporations	3,431,623,388 (L) (Note 6)	52.03%
Kingsbury International Holdings Co., Ltd. (金世旗國際控股股份有限公司) (Note 6)	Interest of controlled corporations	3,431,623,388 (L) (Note 6)	52.03%
IDG-Accel China Capital GP II Associates Ltd. (Note 8)	Interest of controlled corporations	3,431,623,388 (L) (Note 6, 8)	52.03%
IDG-Accel China Capital II Associates L.P. (Note 9)	Interest of controlled corporations	3,431,623,388 (L) (Notes 6,9)	52.03%
IDG-Accel China Capital II L.P. (Note 9)	Interest of controlled corporations	3,431,623,388 (L) (Notes 6, 9)	52.03%
Ho Chi Sing (Note 10)	Interest of controlled corporations	3,443,123,388 (L) (Notes 6, 8, 10)	52.20%
ZHOU Quan (Note 10)	Interest of controlled corporations	3,443,123,388 (L) (Notes 6, 8, 10)	52.20%

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

Name	Capacity/Nature of interest	Number of Ordinary Shares or underlying Ordinary Shares (Note 1)	Percentage of the Company's issued Ordinary Shares (Note 2)
LUO Yuping	Interest of controlled corporations	3,431,623,388 (L) (Notes 6, 7, 11)	52.03%
Foxconn Technology Co., Ltd	Interest of controlled corporations	1,485,000,000(L) (Note 12)	22.51%
Q-Run Holding Ltd.	Interest of controlled corporations	1,188,000,000(L) (Note 12)	18.01%
	Beneficial owner	297,000,000(L) (Note 12)	4.50%

Notes:

- In the above table, the information on the companies in which the interests are held, the capacity/nature of such interests and the number of Ordinary Shares or underlying Ordinary Shares is based on information available on the website of the Stock Exchange (<http://www.hkexnews.hk/>). The percentage of such Ordinary Shares or underlying Ordinary Shares in the issued Ordinary Shares is calculated with reference to the number of issued Ordinary Shares of the Company as at 31 March 2019 and is for reference only.
- The letter "L" represents the individual's long position in the Ordinary Shares or underlying Ordinary Shares. These interests in the underlying Ordinary Shares represent the derivative interests under the Convertible Bond.
- Mr. Mo Tianquan ("Mr. Mo") has control over 100% interests of Tanisca and Upsky Enterprises Limited. Upsky Enterprises Limited has interest in 34,753,409 Ordinary Shares of the Company. Under the SFO, Mr. Mo is deemed to have interest in the Ordinary Shares in which Tanisca and Upsky Enterprises Limited have interest.
- Aquarius Investment has interests in respect of 343,369,176 Ordinary Shares.
- Aquarius Investment is controlled as to 91% by Zhao Ming and as to 9% by Mr. Wang, who is the sole director of Aquarius Investment. Under the SFO, Zhao Ming is deemed to have interest in the underlying Ordinary Shares in which Aquarius Investment has interest.
- Titan Gas is controlled as to 75.73% by Titan Gas Holdings, which is in turn controlled as to 35.13% by Standard Gas, 49.14% by the IDG Funds, 8.05% by Mr. Wang and 6.87% by Kingsbury, 0.73% by Zhang Weiwei and 0.08% by Bryce Wayne Lee. Under the SFO, Titan Gas Holdings, Standard Gas, IDG Funds are deemed to have interest in 3,431,623,388 Ordinary Shares in which Titan Gas has beneficial interest. Interest in such Ordinary Shares include interest in 892,857,142 underlying Ordinary Shares through derivative interests in the Convertible Bond in the principal amount of HK\$60,000,000 at a conversion price of HK\$0.0672 per share. As at 31 March 2019, Mr. Wang, Lin Dongliang and Shong Hugo are directors of Titan Gas Holdings.
- Standard Gas, Mr. Wang and Kingsbury have entered into an acting in concert arrangement for the purpose of facilitating a more efficient decision making process in connection with the exercise of their shareholders' rights in Titan Gas Holdings pursuant to which, Standard Gas, Kingsbury and Mr. Wang agree to align with each other in respect of the voting of major actions in respect of Titan Gas Holdings' business and each of Standard Gas, Mr. Wang and Kingsbury will consult with each other and reach agreement on material matters of Titan Gas Holdings before it/he exercises its/his respective voting rights in Titan Gas Holdings, provided that Mr. Wang will have a casting vote and will have the final decision making power in the event that a consensus cannot be reached among Standard Gas, Mr. Wang and Kingsbury. The Ordinary Shares and underlying Ordinary Shares in which Mr. Wang has interest comprise 3,431,623,388 Ordinary Shares in which Titan Gas has beneficial interest (including derivative interest in 892,857,142 underlying Ordinary Shares).

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (continued)

8. The IDG Funds is under the control of its ultimate general partner, IDG-Accel China Capital GP II Associates Ltd. (“**IDG-Accel Ultimate GP**”). Under the SFO, IDG-Accel Ultimate GP is deemed to have interest in the Ordinary Shares and the underlying Ordinary Shares in which the IDG Funds have interest.
9. IDG-Accel China Capital II Associates L.P. has control over IDG-Accel Capital II L.P. Under the SFO, IDG-Accel China Capital II Associates L.P. is deemed to have interest in the Ordinary Shares and the underlying Ordinary Shares in which IDG-Accel Capital II L.P. has beneficial interest.
10. Ho Chi Sing and Zhou Quan are directors of IDG-Accel Ultimate GP and are responsible for decision-making matters relating to the IDG Funds and their investments, and hence control the exercise of voting rights to the shares that the IDG Funds hold in Titan Gas Holdings. Therefore they are deemed to have interest in the Ordinary Shares and the underlying Ordinary Shares in which IDG-Accel Ultimate GP has interest.
11. Kingsbury is controlled as to 74.8% by Luo Yuping. By virtue of the acting in concert arrangement referred to in Note 7, Luo Yuping is deemed to have interest in the Ordinary Shares and the underlying Ordinary Shares in which Titan Gas Holdings has interest.
12. Foxconn Technology Co., Ltd. has control over Q-Run Holding Ltd., which in turn has direct and indirect controls of 297,000,000 Ordinary Shares and 1,188,000,000 Ordinary Shares of the Company, respectively. Under the SFO, Foxconn Technology Co., Ltd. is deemed to have all the interest in the Ordinary Shares of the Company in which Q-Run Holding Ltd. has interest.

Save as disclosed above, as at 31 March 2019, no person, other than the Directors or chief executives of the Company, whose interests are set out in the section “Directors’ and chief executives’ interests and short positions in shares, underlying shares and debentures of the company or any associated corporation” above, had registered an interest or short position in the shares or underlying shares of the Company that was required to be recorded pursuant to Section 336 of the SFO.

DIRECTORS’ INTERESTS IN A COMPETING BUSINESS

During FY2018, none of the Directors or their respective associates had engaged in or had any interest in any business which competes or may compete with the business of the Company.

PERMITTED INDEMNITY PROVISION

The Bye-laws provides that the Directors shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they shall or may incur or sustain by or by reason of any act done, concurred in or omitted in or about the execution of their duty; provided that this indemnity shall not extend to any matter in respect of any fraud or dishonesty which may attach to any of the Directors.

A directors’ liability insurance is in place to protect the Directors against potential costs and liabilities arising from claims brought against the Directors.

REPORT OF THE DIRECTORS

CONFIRMATION OF INDEPENDENCE

The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules and considers all the independent non-executive Directors to be independent.

CORPORATE GOVERNANCE

A report on the principal corporate governance practices adopted by the Company is set out on pages 59 to 72 of this annual report.

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this annual report, based on information that is publicly available to the Company and within the knowledge of the Directors, the Company has maintained the prescribed public float under the Listing Rules.

SHARE OPTION SCHEME

The Company did not adopt any share option scheme. However, the Company may consider to adopt one subject to compliance with the Listing Rules.

ENVIRONMENTAL POLICY AND PERFORMANCE

Details of the environmental policy and performance of the Company and its subsidiaries are set out in the Environmental, Social and Governance Report on pages 73 to 102 of this annual report.

RELATIONSHIPS WITH EMPLOYEES, SUPPLIERS AND CUSTOMERS

Details of the relationships of the Company and its subsidiaries with employees, suppliers and customers are set out in the Environmental, Social and Governance Report on pages 73 to 102 of this annual report.

COMPLIANCE WITH LAWS AND REGULATIONS

During the year, as far as the Company is aware, there was no material breach of or non-compliance with applicable laws, rules and regulations by the Company and its subsidiaries that have significant impact on their businesses and operations.

REPORT OF THE DIRECTORS

AUDITORS

SHINEWING resigned as the auditor of the Company on 26 August 2016 at the request of the Board and following such resignation, KPMG has been appointed as the auditor of the Company with effect from 26 August 2016 to fill the casual vacancy and held office until the conclusion of the annual general meeting held on 28 September 2016 during which KPMG was re-appointed as the auditor of the Company.

Pursuant to the resolution passed at the annual general meeting of the Company on 11 August 2017, the Company re-appointed KPMG as the auditor of the Company. Pursuant to the resolution passed at the annual general meeting of the Company on 24 August 2018, the Company re-appointed KPMG as the auditor of the Company. The proposal of re-appointing KPMG as the auditor of the Company will be put forward at the forthcoming annual general meeting.

PROFESSIONAL TAX ADVICE RECOMMENDED

If the shareholders are unsure about the taxation implications of purchasing, holdings, disposing of, dealing in, or the exercise of any rights in relation to, the shares of the Company, they are advised to consult an expert.

NON-COMPETITION DEED

As disclosed in the RTO Circular, each of the Controlling Shareholders (as defined in the RTO Circular) and Lin Dongliang (together, the “**Covenantors**”) have entered into a Non-Competition Deed (as defined in the RTO Circular) in favour of the Company (for itself and for the benefit of its subsidiaries). With reference to the RTO Circular, the Company organised a working meeting with the Covenantors in which the Company reviewed their business portfolios and considered that there was no opportunity to operate a Restricted Business (as defined in the RTO Circular).

The Company has received confirmations from each of the Covenantors on full compliance with the Non-Competition Deed for FY2018.

The independent non-executive Directors have reviewed the confirmations provided by the Covenantors, and concluded that each of the Covenantors complied with the relevant terms of the Non-Competition Deed for FY2018.

ON BEHALF OF THE BOARD

Wang Jingbo

Chairman and Chief Executive Officer

Hong Kong
21 June 2019

CORPORATE GOVERNANCE REPORT

COMPLIANCE WITH THE CORPORATE GOVERNANCE CODE

The Company 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 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 throughout FY2018, except for the CG Code provision A.2.1, which stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. During FY2018, Mr. Wang Jingbo was both the chairman of the Board and the chief executive officer of the Company. The Board is of the opinion that such arrangement does 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.

BUSINESS MODEL AND STRATEGY

During the past year, as one of its existing strategies, the Company has aimed to widen its global footprint and develop a more diversified and balanced energy business portfolio through selective acquisition of overseas energy assets. The Company is currently focusing on the substantial investment opportunities arising from China's increasing demand for imported nature gas and the emerging North America LNG export market due to abundant low-cost shale gas supply. By investing in China's first non-state-owned LNG receiving terminal and one of the largest Canadian LNG export terminals under development, and making equity investment in LNGL, a company principally engaged in developing LNG export terminal projects in the U.S. and in Canada, the Company has been making strategic investments focusing on the LNG business value chain.

The Company captures investment opportunities in the energy sector and realizes value appreciation and extraordinary returns through enhancing the efficiency of asset operations, the diversification of energy asset portfolios, the cross-border mergers and acquisitions, and funds management with economies of scale.

With strong supports from shareholders, mature investment strategies, sophisticated cross-border transaction capabilities and in-depth knowledge of the global energy market, the Company is best positioned to grasp the industry momentum brought by China's energy structural reform and the dynamic changes of the global natural gas market, and is committed to becoming the best cross-border energy assets investment manager of the region. To satisfy the capital needs for assets investment and management, subject to the market condition, the Company will look for the most suitable fund raising channels which may include leveraging both equity and/or debt markets, as well as any other financing possibilities. The Boards believes that the Company is well positioned for rapid development when attractive assets become available, and outperform crude oil benchmarks. The Company endeavors to present a unique investment opportunity for its shareholders to gain exposure to a diversified, top quality global oil and gas asset portfolio.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

As at the date of this annual report, the Board comprises 7 directors, including 2 executive Directors (Mr. Wang Jingbo (chairman and chief executive officer) and Mr. Lee Khay Kok; 2 non-executive Directors (Mr. Lin Dongliang and Mr. Shong Hugo), and 3 independent non-executive Directors (Mr. Shi Cen, Ms. Ge Aiji, and Mr. Chau Shing Yim David). The biographical details of the Directors are set out in the section “Directors’ and Senior Management’s Biographies” on pages 38 to 43 of this annual report.

One of the independent non-executive Directors, Mr. Chau Shing Yim David, is a professional accountant and that is in compliance with the requirement of the Listing Rules. There are also 3 board committees under the Board, which are the audit committee, the nomination committee and the remuneration committee of the Company.

The key responsibilities of the Board include, among other things, formulating the Company’s overall strategies, setting management targets, regulating and reviewing internal controls, formulating the Company’s corporate governance policy, supervising management’s performance while the day-to-day operations and management of the Company are delegated by the Board to management, and ensuring adequacy of resources, qualifications, experience and training programs and budget of the financial staff.

In accordance with the Company’s Bye-laws, at each annual general meeting of the Company one-third of the Directors for the time being or, if the number of the Directors is not a multiple of three, the number nearest to but not less than one-third, shall retire from office by rotation, provided that every director shall be subject to retirement by rotation at least once every three years.

As at the date of this annual report, each of the executive Directors, non-executive Directors and independent non-executive Directors is appointed for a specific term of not more than 3 years and is subject to retirement by rotation and re-election at the Company’s annual general meeting in accordance with the Company’s Bye-laws and the Listing Rules. At the forthcoming annual general meeting, Mr. Wang Jingbo, Ms. Ge Aiji and Mr. Shi Cen will retire from office by rotation and, being eligible, offer themselves for re-election. To determine the non-executive Directors’ independence, assessments are carried out upon appointment, annually and at any other time where the circumstances warrant reconsideration by the nomination committee of the Company (“**Nomination Committee**”). The Company has received from each of the independent non-executive Directors an annual confirmation of independence pursuant to Rule 3.13 of the Listing Rules. The Board determined that all the independent non-executive Directors had met the requirements for independence as set out in Rule 3.13 of the Listing Rules.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Every newly appointed Director will be given an introduction so as to ensure that he/she has appropriate understanding of the Company's business and of his/her duties and responsibilities under the Listing Rules and the relevant statutory and regulatory requirements. The Directors may request the Company to provide independent professional advice at the Company's expense to discharge his/her duties to the Company. Directors' training is an ongoing process. During FY2018, the Company had provided to the Directors regular updates and presentations on changes and developments to the Company's business and to the legislative regulatory environments in which the Company and its subsidiaries operate. All Directors are also encouraged to attend relevant training courses at the Company's expense. All Directors are required to provide the Company with their training record they received during FY2018.

During FY2018, the Board has reviewed and monitored the training and continuous professional development of Directors and senior management. The Board has also reviewed and ensured compliance of the relevant legal and regulatory requirements, the code of conducts, the CG Code and the disclosure in this Corporate Governance Report.

The Directors acknowledge their responsibility for preparing the financial statements and ensuring that the financial statements are prepared as to give a true and fair view and on a going concern basis in accordance with the statutory requirements and applicable financial reporting standards.

Audit Committee

The audit committee of the Company ("**Audit Committee**") currently comprises two independent non-executive Directors and one non-executive Director, namely Mr. Chau Shing Yim David (Chairman), Mr. Shi Cen and Mr. Lin Dongliang.

Under the terms of reference, the Audit Committee is required, among other things, to oversee the relationship with the independent auditor, to review the interim and annual consolidated financial statements, to monitor compliance with statutory and listing requirements, to ensure adequacy of resources, qualifications, experience and training programs and budget of the financial staff, and to oversee the Company's financial reporting system, risk management and internal control systems. The Audit Committee is also responsible for facilitating the risk assessment process and timely communication with the Board where appropriate, and ensuring key business and operational risks are properly identified and managed.

The terms of reference for the Audit Committee have been adopted in line with the CG Code. The written terms of reference of the Audit Committee are available on the website of the Stock Exchange and the Company.

During FY2018, the Audit Committee, among other matters, reviewed interim/annual results and reports from the independent auditor regarding the audit on annual consolidated financial statements, discussed the risk management and internal control of the Company and its subsidiaries, and met with the independent auditor. The Audit Committee reviewed the scope, extent and effectiveness of risk management and internal control systems of the Company and its subsidiaries.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS (continued)

Nomination Committee

The Nomination Committee currently comprises two independent non-executive Directors and one executive Director, namely Ms. Ge Aiji (Chairman), Mr. Shi Cen, and Mr. Wang Jingbo.

The terms of reference of the Nomination Committee have been determined with reference to the CG Code. Under its terms of reference, the Nomination Committee is responsible for determining the policy for the nomination of Directors, identifying potential directors and making recommendations to the Board on the appointment or re-appointment of Directors. Potential new directors are selected on the basis of their qualifications, skills and experience which the Nomination Committee considers will make a positive contribution to the performance of the Board.

The terms of reference for the Nomination Committee have been adopted in line with the CG Code. The written terms of reference of the Nomination Committee are available on the website of the Stock Exchange and the Company.

The Nomination Committee is also responsible for the review of the Board's diversity policy, considering factors including but not limited to gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service of Board members, and review the measurable objectives that the Board has set for implementing the Board's diversity policy, and monitor the progress on achieving the measurable objectives.

During FY2018, the Nomination Committee reviewed the credentials of the incoming Directors and recommended the appointment of the same to the Board for approval. In addition, the Nomination Committee reviewed the structure, size and composition (including the skills set, knowledge and experience) of the Board, and performed an assessment on the independence of all the Independent Non-executive Directors with the conclusion that all of them are independent. It also evaluated the performance and contribution of the retiring Directors and recommended them to the Board on their re-elections at the forthcoming annual general meeting.

Remuneration Committee

The remuneration committee of the Company ("**Remuneration Committee**") currently comprises two independent non-executive Directors and one non-executive Director, namely Mr. Chau Shing Yim David (Chairman), Ms. Ge Aiji and Mr. Shong Hugo.

The terms of reference of the Remuneration Committee have been determined with reference to the CG Code. Under the terms of reference of the Remuneration Committee, the responsibilities of the Remuneration Committee include, inter alia, assisting the Company in the administration of a formal and transparent procedure for developing remuneration policies, making recommendations to the Board on the remuneration packages of individual executive Directors and senior management and ensuring that no Director or any of his/her associates is involved in deciding his/her own remuneration, assessing performance of executive Directors and approving the term of executive Directors' service contracts.

During FY2018, the Remuneration Committee reviewed and approved the remunerations of the Directors and the senior management of the Company, and recommended the same to the Board for approval.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(continued)*

Remuneration Committee *(continued)*

The terms of reference for the Remuneration Committee have been adopted in line with the CG Code. The written terms of reference of the Remuneration Committee are available on the website of the Stock Exchange and the Company.

In FY2018, the work performed by the Remuneration Committee includes, inter alia, the review of the Company's remuneration policy for its executive Directors and senior management and their levels of remuneration.

BOARD DIVERSITY POLICY

In 2016, the Board adopted a board diversity policy setting out the approach to achieve diversity on the Board. The Company considered diversity of board members can be achieved through consideration of a number of aspects, including but not limited to gender, age, cultural and educational background, professional experience, skills, knowledge and length of service. All Board appointments are based on merit and contribution, and candidates are considered against objective criteria, having due regard for the benefits of diversity on the Board. The Nomination Committee reviews the diversity policy on a regular basis and discusses any revisions that may be required, and recommends any such revisions to the Board for consideration and approval.

BOARD NOMINATION POLICY

The Board has formalised the Company's existing approach and procedures and adopted a Board nomination policy in March 2019 to ensure that, with the support of the Nomination Committee, proper selection and nomination processes are in place for the appointment of additional and replacing Directors and re-election of Directors.

As noted above, the Nomination Committee will, on an ad hoc basis, recommend candidates who possess the relevant expertise as it considers appropriate when the need to select, nominate or re-elect Directors arises. In the determination of the suitability of a candidate, the Nomination Committee will consider the potential contribution a candidate can bring to the Board in terms of skills set, experience, expertise, independence, age, culture, ethnicity, gender and such other factors that it may consider appropriate for a position on the Board. The Nomination Committee will provide updated information and status of progress to the Board throughout the determination process as and when appropriate. The Board will take into consideration the benefits of a diversified Board when selecting Board candidates.

Where a retiring Director, being eligible, offers himself/herself for re-election, the relevant sub-committee will consider and, if appropriate, recommend such retiring Director to stand for re-election at a general meeting. A circular containing the requisite information on such retiring Director will be sent to shareholders prior to a general meeting in accordance with the Listing Rules. Shareholders of the Company may nominate a person to stand for election as a Director at a general meeting in accordance with the Bye-laws of the Company and applicable laws and regulations including those of the Listing Rules. The procedures for such proposal are posted on the website of the Company.

The Board Nomination Policy is available on the website of the Company. The Board will from time to time review the Board Nomination Policy and monitor its implementation to ensure its continued effectiveness and compliance with regulatory requirements and good corporate governance practices.

CORPORATE GOVERNANCE REPORT

ATTENDANCE RECORDS AT MEETINGS

The attendance records of each Director at the various meetings of the Company during FY2018 are set out below:

	Attended/Eligible to Attend					
	Annual general meeting	Special general meeting	Board meetings	Audit committee meetings	Nomination committee meetings	Remuneration committee meetings
Number of meetings	1	1	13	3	3	2
Executive Directors						
Mr. Wang Jingbo	1/1	1/1	13/13	N/A	3/3	N/A
Mr. Lee Khay Kok	1/1	1/1	13/13	N/A	N/A	N/A
Non-executive Directors						
Mr. Lin Dongliang	1/1	1/1	11/13	N/A	N/A	N/A
Mr. Shong Hugo	1/1	1/1	11/13	N/A	N/A	2/2
Independent Non-executive Directors						
Mr. Chau Shing Yim David	1/1	1/1	11/13	3/3	N/A	2/2
Mr. Shi Cen	1/1	1/1	11/13	3/3	3/3	N/A
Ms. Ge Aiji (i)	N/A	N/A	4/5	N/A	1/1	N/A
Prof. Chen Zhiwu (ii)	1/1	1/1	7/8	3/3	2/2	2/2

Notes:

- (i) Ms. Ge Aiji was appointed as an independent non-executive director, a member of the remuneration committee and the chairman of the nomination committee of the Company on 19 October 2018.
- (ii) Prof. Chen Zhiwu resigned as an independent non-executive director, a member of the remuneration committee and the chairman of the nomination committee of the Company on 19 October 2018.

CORPORATE GOVERNANCE REPORT

CONTINUOUS PROFESSIONAL DEVELOPMENT

Pursuant to CG Code provision A.6.5, all directors should participate in continuous professional development to develop and refresh their knowledge and skills during the year. This is to ensure that their contributions to the Board remains informed and relevant.

All Directors have been provided with training on their duties and responsibilities as a director of a listed company and the compliance issues under the Listing Rules. The Company continuously updates Directors on the latest developments regarding the Listing Rules and other applicable regulatory requirements, to ensure their compliance and enhance their awareness of their continuing obligations as Directors and good corporate governance practices. All Directors have provided the joint company secretaries of the Company with their training records for FY2018.

The individual training record of each Director during FY2018 is set out below:

Executive Directors

Mr. Wang Jingbo (Chairman and Chief Executive Officer)	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements
Mr. Lee Khay Kok	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements

Non-executive Directors

Mr. Lin Dongliang	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements
Mr. Shong Hugo	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements

Independent Non-executive Directors

Ms. Ge Aiji	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements
Mr. Shi Cen	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements
Mr. Chau Shing Yim David	Reading relevant materials and updates relating to the Listing Rules and other applicable regulatory requirements

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE FUNCTION

The Board recognizes that corporate governance should be the collective responsibility of Directors and the corporate governance duties include:

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

REMUNERATION OF DIRECTORS AND SENIOR MANAGEMENT

The Company has established a formal and transparent procedure for formulating policies on remuneration of Directors and senior management. Details of the remuneration of each of the Directors for FY2018 are set out in note 10 to the consolidated financial statements.

The senior management's remuneration for FY2018 is within the following bands:

Emolument bands	Number of individuals
HK\$500,001–HK\$1,000,000	1
HK\$1,000,001–HK\$1,500,000	1
HK\$1,500,001–HK\$2,000,000	1
	3

Note: The members of the senior management disclosed above refer to the employees other than Directors.

Further particulars regarding the Directors and senior management's emoluments and the five highest paid employees as required to be disclosed pursuant to Appendix 16 of the Listing Rules are set out in notes 10, 34(a) and 11 to the consolidated financial statements.

CORPORATE GOVERNANCE REPORT

AUDITOR'S REMUNERATION

For FY2018, services provided to the Company and its subsidiaries by KPMG, the existing auditor of the Company, and the respective fees paid and payable were:

	HK\$'000
Audit services	3,132

DIRECTORS' 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 by the Company, all Directors have confirmed that they have complied with the required standard set out in the Model Code throughout FY2018.

JOINT COMPANY SECRETARIES

The Company has appointed Mr. Tan Jue, the chief financial officer of the Company, and Mr. Ku Sau Shan Lawrence James as the joint company secretaries of the Company. The joint company secretaries report to the chairman of the Company and are responsible for advising the Board on governance matters, new Director's induction and professional development of Directors as well as ensuring good information flow between the Board members and the compliance of the policy and procedure of the Board.

In FY2018, each of the joint company secretaries of the Company had undertaken no less than 15 hours of relevant professional training.

RISK MANAGEMENT AND INTERNAL CONTROL

Responsibility of the Board

The Board has overall responsibilities for maintaining the Company's systems of risk management and internal control and reviewing their effectiveness. The systems of risk management and internal control systems of the Company are designed to provide reasonable assurance to minimise risk of failure in operational systems, and to assist in the achievement of the Company's goals. The systems are also structured to safeguard the Company's assets, to ensure the maintenance of proper accounting records and compliance with applicable laws, rules and regulations.

The Audit Committee has the final authority to review and approve the annual audit plan and all major changes to the plan. In addition, special reviews may also be performed on areas of concern identified by management from time to time.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Risk Management and Internal Control Systems

The Company adopted the three lines of defence model in the management of risk. Operational management forms the core of the first line of defence as they contact with the risk sources in the first place. They are responsible for identifying, reporting and preliminarily managing risks in their daily operations. Our second line of defence is aimed to facilitate and monitor the implementation of effective risk management practices by operational management throughout the Company. Our internal audit function is the core of the third line of defence and mainly responsible for checking, auditing and monitoring the work performed by the first and second lines of defence.

The Company's risks are identified from business processes in our established enterprise-wide risk assessment methodologies. Key responsible personnel for the management of risk in each of the business process are selected as interviewees to identify the risks to form our risk universe. Each risk within the risk universe is assessed in terms of likelihood of occurrence and the significance of impact, taken into account the current internal controls in place to mitigate these risks. The risk assessment results are reported to senior management and the Board for them to evaluate whether risks have been appropriately managed and decide on our priorities in risk management, based on their preferences towards risk, and in particular how much risks the Company is willing to take for the achievement of its strategy and business objectives, the availability of resources for risk mitigation, and the effectiveness of current internal control system.

The key components of the Company's control structure are as follows:

Culture: The Board believes that good governance reflects the culture of an organisation. The Company aims at all times to act ethically and with integrity, and to instil this behaviour in all its employees by setting example by the Board. The Company has a code of conduct, which is posted on its internal intranet site. The Company is committed to developing and maintaining high professional and ethical standards. These are reflected in the rigorous selection process and career development plans for all employees. The organisation prides itself on being a long-term employer which instils in individuals, as they progress through the Company, a thorough understanding of the Company's ways of thinking and acting.

Channels of communication are clearly established which allow employees to express their views to senior staff. Employees are aware that, whenever the unexpected occurs, attention should be given not only to the event itself, but also to determining the cause. Through the Company's code of conduct, employees are encouraged (and instructed as to how) to report control deficiencies or suspicions of impropriety to those who are in a position to take necessary action.

Risk assessment: The Board of Directors and the management each have a responsibility to identify and analyse the risks underlying the achievement of business objectives, and to determine how such risks should be managed and mitigated. The management, among other matters, is responsible for facilitating risk assessment process and timely communication to the Board where appropriate, and ensuring that key business and operational risks are properly identified and managed.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Risk Management and Internal Control Systems (continued)

Management structure: The Company has a clear organisational structure that, to the extent required, delegates the day-to-day responsibility for the design, documentation and implementation of procedures and monitoring of risk. Individuals appreciate where they will be held accountable in this process.

Controls and review: The control environment comprises policies and procedures intended to ensure that relevant management directives are carried out and actions that may be needed to address risks are taken. These may include approvals and verifications, reviews, safeguarding of assets and segregation of duties. Control activities can be divided into operations, financial reporting and compliance, although there may, on occasion, be some overlap between them. The typical control activities adopted by the Company include:

- analytical reviews: for example, conducting reviews of actual performance versus budgets, forecasts, prior periods and competitors
- direct functional or activity management: reviews of performance reports, conducted by managers in charge of functions or activities
- information-processing: performing controls intended to check the authorisation of transactions and the accuracy and completeness of their reporting, for example, exception reports.
- physical controls: ensuring equipment, inventories, securities and other assets are safeguarded and subject to periodic checks.
- performance indicators: carrying out analyses of different sets of data, operational and financial, examining the relationships between them, and taking corrective action where necessary.
- segregation of duties: dividing and segregating duties among different people, with a view to strengthening checks and minimising the risk of errors and abuse.
- Hedging: place the Company in a hedged position, protecting it from a decline in the oil price over the stipulated period of time.

The Company has in place effective processes and systems for the identification, capture and reporting of operational, financial and compliance-related information in a form and time frame intended to ensure that staff carry out their designated responsibilities.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (continued)

The Risk Management and Internal Control Systems (continued)

Any material internal control defects identified are timely communicated and carefully evaluated for their potential impacts. The departments or functions who are owners of these controls, are required to propose corrective measures and obtain approval from management before implementation. The implementation statuses are monitored by both management and the internal audit function to ensure these control defects are properly resolved in a timely manner. The Company has also established policies and procedures for the handling and dissemination of inside information. The information to be disclosed should be properly reviewed and approved by our compliance functions and management to ensure its appropriateness and accuracy, and is closely monitored after disclosure.

In the forthcoming financial year, the Company plans to use its best endeavor to continuously refine our risk management and internal control systems whenever necessary, which would include the establishment of a more formalised risk response process, improvements to be made in control design and execution in high risk areas identified through our annual risk assessment, and a mechanism to monitor the resolution of control deficiencies, to mention but a few.

Internal Audit Function

The Company's internal audit department plays a major role in the monitoring of the Company's internal governance processes. The major tasks of the department include providing assurance on the effectiveness of the Company's governance, risk management and internal controls in areas of operations, safeguarding of assets, reporting, and compliance, and conducting risk-based audits of all branches and subsidiaries of the Company on a regular basis with recommended action plans to audit findings. The department also provides suggestion in risk management and internal control related issues within the Company.

Review of the Effectiveness and Adequacy of Systems

The management prepares and submits reports to the Board in risk and control related issues at least annually, detailing how risks have been managed and internal controls have been designed and implemented in accordance with the established risk and control frameworks, to keep our overall risk exposures within risk appetite and achieve our business objectives. The Board reviews the reasonableness of these reports and representations from management and makes sufficient enquiries whenever they feel necessary, before reaching their conclusions.

In respect of FY2018, the Board and the Audit Committee conducted annual review of the effectiveness of the risk management and the internal control system of the Company covering the finance, operational and compliance controls and risk management functions. Based on the review, the Board considered that the Company's risk management and internal control systems were effective and adequate for its present requirements.

CORPORATE GOVERNANCE REPORT

ACCOUNTABILITY AND AUDIT

The Directors acknowledge their responsibility for preparing financial statements for each financial period with a view to ensuring such financial statements give a true and fair view of the state of affairs of the Company and its subsidiaries and of the results and cash flows for that period. The Company's financial statements are prepared in accordance with all relevant statutory requirements and applicable accounting standards. The Directors are responsible for ensuring that appropriate accounting policies are selected and applied consistently; and that judgments and estimates made are prudent and reasonable. The statement of the external auditor of the Company, KPMG, with regard to their reporting responsibilities on the consolidated financial statements is set out in the Independent Auditor's Report on pages 103 to 108 of this annual report.

COMMUNICATION WITH SHAREHOLDERS

The Company communicates with the shareholders of the Company through the publication of annual and interim reports, press announcements and circulars. The annual general meeting also provides a useful and convenient forum for shareholders to exchange views with the Board, and with each other. At the annual general meeting, the chairperson of the annual general meeting and chairman/member/duly appointed delegate of the Audit Committee, the Remuneration Committee and the Nomination Committee are available to answer the questions raised by shareholders.

The Directors present their report and the audited financial statements of the Company and its subsidiaries for FY2018.

An annual general meeting of the Company shall be held in each year and at the place as may be determined by the Board. Each general meeting, other than an annual general meeting, shall be called a special general meeting.

SHAREHOLDERS' RIGHT TO PROPOSE RESOLUTIONS AT GENERAL MEETING

Shareholder(s) of the Company holding (i) not less than one-twentieth of the total voting rights of all shareholders having the right to vote at the general meeting; or (ii) not less than 100 shareholders, can submit a written request stating the resolution intended to be moved at an annual general meeting; or a statement of no more than 1,000 words with respect to the matter referred to in any proposed resolution or the business to be dealt with at a particular general meeting.

The written request/statements must be signed by the shareholder(s) concerned and deposited at the Company's registered office at Clarendon House, 2 Church Street, Hamilton HM11, Bermuda and its principal office at Unit 5507, 55/F, The Center, 99 Queen's Road, Central, Hong Kong, for the attention of the joint company secretaries of the Company, not less than six weeks before an annual general meeting in the case of a requisition requiring notice of a resolution and not less than one week before the general meeting in the case of any other requisition.

CORPORATE GOVERNANCE REPORT

PROCEDURES FOR SHAREHOLDERS TO CONVENE A SPECIAL GENERAL MEETING

According to the Bye-laws of the Company and the Companies Act 1981 of Bermuda, a special general meeting shall be convened by the Board on the requisition of one or more Shareholders' holding, at the date of deposit of the requisition, not less than one tenth of the paid up capital of the Company having the right of voting at general meetings. Such requisition shall be made in writing to the Board or the secretary of the Company and deposited at the registered office of the Company. Such meeting shall be held within 2 months after the deposit of such requisition. If within 21 days of such deposit, the Board fails to proceed to convene such meeting, the requisitionist(s) himself (themselves) (or any of them representing more than one half of the total voting rights held by all of the requisitionists) may do so in the same manner (as nearly as possible). Any meeting so convened shall not be held after the expiration of 3 months from the date of deposit of the requisition. All reasonable expenses incurred by the requisitionist(s) as a result of the failure of the Board shall be reimbursed to the requisitionist(s) by the Company.

PROCEDURES FOR SHAREHOLDERS TO PUT ENQUIRES TO THE BOARD

Shareholders should direct their enquiries about their shareholdings to the Company's branch share registrar in Hong Kong, Computershare Hong Kong Investor Services Limited, at Shops 1712-1716, 17th Floor, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong. In respect of other enquiries, Shareholders may put forward enquiries to the Board through the below contact details for handling. The contact details are as follows:

Address: Unit 5507, 55/F., The Center
99 Queen's Road Central Hong Kong
Tel No.: (852) 3903 1326
Fax No.: (852) 2541 5562

Shareholders may also make enquiries with the Board at the general meetings of the Company.

VOTING BY POLL

All resolutions put forward at shareholder meetings will be voted by poll pursuant to the Listing Rules and poll results will be posted on the websites of the Company and the Stock Exchange after each shareholder's meeting.

CHANGE IN CONSTITUTIONAL DOCUMENTS

There were no changes in the Company's constitutional documents during FY2018.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Contents

I. REPORT OVERVIEW	74
1.1 About This Report	74
1.2 Vision of ESG Management	75
II. ENVIRONMENTAL PROTECTION AND GREEN DEVELOPMENT	75
2.1 Emissions Management	76
2.2 Use of Resources and Management	81
2.3 Innovation and Safety	84
III. COMPLIANT BUSINESS OPERATION TO BUILD A SAFE AND HARMONIOUS PRODUCTION CHAIN	86
3.1 Anti-corruption	86
3.2 Ensuring Production Quality and Consolidating Customer Relationship	87
3.3 Supplier Management	88
IV. CARE FOR EMPLOYEES AND MUTUAL DEVELOPMENT	90
4.1 Employment and Protection of Employees' Rights and Benefits	90
4.2 Employee Training and Career Development	94
4.3 Employee Care	96
V. COMMUNITY SERVICES AND CONTRIBUTION TO THE SOCIETY	96
APPENDIX – INDEX TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE HONG KONG STOCK EXCHANGE	98

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

I. REPORT OVERVIEW

1.1 About This Report

This is the third Environmental, Social and Governance Report issued by IDG Energy Investment Limited (the “**Company**”). This report mainly introduces the Company and its subsidiaries’ policies and measures regarding environmental, social and governance (“**ESG**”) issues and is meant to strengthen communication and engagement with internal and external stakeholders.

The Board of Directors of the Company (the “**Board**”) and its individual members assume full responsibility for the Company’s ESG strategy and ESG reporting and are responsible for assessing and determining the Company’s ESG risks and ensuring that the Company and its subsidiaries have an appropriate and effective ESG risk management and internal control system in place. The management of the Company provides the Board with confirmation as to whether the system is effective. The Board and its individual members affirm that this report contains no false or misleading statements or material omissions and that they are jointly and severally responsible for the truthfulness, accuracy, and completeness of its contents.

Scope of the Report

This report covers the Company and its subsidiaries. The Company is an investment company and its principal activity is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consist of upstream oil and gas business, LNG liquefaction and exporting, LNG importing, processing and sales, and LNG logistics services, as well as related energy investment fund management. As the sole product manufacturing subsidiary of the Company, 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**”) is responsible for the largest proportion of environmental responsibility, so the scope of disclosure of environmental data in this report is limited to Hongbo Mining.

Time Range

The Company’s ESG report is an annual report and this report is for the period from 1 April 2018 to 31 March 2019.

Basis of Preparation

This report is prepared in accordance with the requirements of the Environmental, Social and Governance Reporting Guide (the “**ESG Reporting Guide**”) of Hong Kong Exchange and Clearing Limited (“**HKEx**”).

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

1.2 Vision of ESG Management

The reporting period of this report represented the third year of the Company's ESG disclosure. Regarding Hongbo Mining, the Company's subsidiary, engaged in upstream oil exploration, development, production and sale of crude oil in China, the Company has adhered to the development philosophy of "energy conservation, emissions reduction, green development, and safety as top priority" to achieve green and secure development while continuously improving quality and efficiency and provide society with high-quality oil resources. At the same time, the Company has further increased its comprehensive strength by focusing on talent development, technological innovation, supervision and management and performance optimization. The Company mainly focuses on investment and management of global energy assets. With respect to investment orientation, the Company is optimistic about China's huge demand for imported nature gas and the long-term availability of abundant low-price natural gas resources due to the shale gas revolution in North America, proactively making deployments along the clean energy (natural gas) industry chain, and developing itself into an upstream and downstream integrated, innovative, secure and environmentally friendly energy investment and management company.

II. ENVIRONMENTAL PROTECTION AND GREEN DEVELOPMENT

Environmental protection is an important issue of common concern for the whole world. The Company and its subsidiaries have always strictly followed the national and local laws, regulations and policies on resource preservation and environmental protection, including Environmental Protection Law of the People's Republic of China (《中華人民共和國環境保護法》), Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and Plan of Ecological and Environmental Protection during the 13th Five-Year Plan Period (《“十三五”生態環境保護規劃》). The Company and its subsidiaries have been committed to fulfilling its environmental responsibilities by increasing investment in energy conservation, emissions reduction and environmental protection, increasing resource utilization efficiency, reducing pollutant emissions, and ensuring environmental and ecological protection in the operating regions.

During the reporting period, the Company and its subsidiaries did not have any environmental pollution and ecological damage accidents, or waste management violation events.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.1 Emissions Management

Hongbo Mining, the Company's subsidiary, has formulated strict internal Rules on Environmental Protection Management (“**Management Rules**”) and Management System for Protecting 212 Oil Region Environment (“**Management System for Oil Region**”) in accordance with relevant laws and regulations including Law of the People's Republic of China on Prevention and Control Atmospheric Pollution (《中華人民共和國大氣污染防治法》), Law of the People's Republic of China on Prevention and Control of Environmental Pollution Caused by Solid Wastes (《中華人民共和國固體廢物污染環境防治法》), and Law of the People's Republic of China on Prevention and Control Water Pollution (《中華人民共和國水污染防治法》). The Management Rules have clear provisions in six major aspects such as environmental protection measures, environmental impact assessment, “three simultaneous” management, environmental hidden danger management, environmental monitoring, and environmental performance evaluation. The Management System for Oil Region is tailored to specific oil regions, including vehicle route planning, daily environmental health maintenance and garbage collection in well site, storage of materials and waste & scraps, and arrangement of impervious cloth, and ensures that various departments and teams fulfill their due responsibilities. In this reporting period, Hongbo Mining has also published the Bylaw for Handover in Oil Well Operations and Bylaw for Well Drilling, Withdrawal after Well Completion and Handover, which standardized the environmental management rules for handover and withdrawal after completion.

Hongbo Mining, in accordance with the above relevant management rules, has also put in place an effective management mechanism for implementation, where Exploration Engineering and Engineering Operation assume the overall responsibility and the relevant functional departments and project contractors supervise each other with clear definition of responsibilities and powers, which has achieved prominent effects.

2.1.1 Reduction of Greenhouse Gas Emissions

In line with the Greenhouse Gas Emissions Control Plan during the 13th Five-Year Plan Period (《“十三五”控制溫室氣體排放工作方案》) and other policy documents, the Company and its subsidiaries have thoroughly implemented national environmental protection guidelines and policies and strictly controlled its greenhouse gas emissions.

Greenhouse gas (GHG) emissions generated by Hongbo Mining from its crude oil production, collection, transmission and processing activities are mainly carbon dioxide. Scope 1¹ emissions are mainly from the following sources:

- GHG emissions resulting from diesel combustion in well drilling and oil-water well maintenance activities;
- GHG emissions resulting from natural gas combustion for oil and gas transmission pipeline heating and domestic heating in winter;
- GHG emissions resulting from well testing release, process release and escape during production.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Scope 2¹ emissions are mainly from the generation of purchased electricity.

Greenhouse Gas Emissions	FY 2018	FY 2017
Total greenhouse gas emissions (t CO ₂ equivalent)	11,607.34	10,164.25
Scope 1 gas emissions ² (t CO ₂ equivalent)	4,883.76	4,005.25
Scope 2 gas emissions (t CO ₂ equivalent)	6,723.58	6,159.00
Intensity of greenhouse gas emissions (t CO ₂ equivalent/t crude output)	0.22	0.21

To reduce GHG emissions, Hongbo Mining has taken a series of measures. Examples include gathering associated natural gas in crude oil production and using it for heating and electricity generation of Hongbo Mining; adjusting thermal system parameters according to season in a timely way to plan natural gas utilization optimally; developing scientific working schedules with reasonable activation and deactivation for oil wells with insufficient liquid supply to pump oil by interval and thus effectively reduce electricity consumption; promoting advanced applications such as intelligent variable frequency control cabinet and alloy anti-wax devices to save electricity consumption; and add reactive power compensators to improve the power factor of power grids, reduce the loss of supply transformers and transmission lines, and enhance power supply efficiency.

During the reporting period, Hongbo Mining saved approximately 2,354.10 tonnes of standard coal equivalent and reduced 6,167.72 tonnes of carbon dioxide equivalent of GHG emissions by combusting 1.77 million normal cubic metres of associated natural gas for heating and electricity generation.

¹ In accordance with Appendix 2: Reporting Guidance on Environmental KPIs published by HKEx, Scope 1 emissions are direct emissions from operations that are owned or controlled by the company and Scope 2 emissions are “energy indirect” emissions resulting from the generation of purchased or acquired electricity, heating, cooling and steam consumed within the company.

² Hongbo Mining does not use gas flares in its oil and gas production and therefore does not have GHG emissions from them. As Hongbo Mining has not yet established a process to collect GHG emissions data from well testing, process release and production escape, such data is not covered in this report and will be disclosed in future reports after it has put in place a statistical process for such data.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.1.2 Waste Gas Generation and Management

The air pollutants generated by Hongbo Mining from its business operation are mainly sulphur dioxide, oxynitride and soot resulting from natural gas combustion of its heating furnaces and generating units and petrol and diesel combustion.

Exhaust Emissions	FY 2018	FY 2017³
Sulphur dioxide emissions (t)	0.32	0.27
Oxynitride emissions (t)	3.99	2.56
Particulate matter emissions (t)	0.50	0.34
Intensity of sulphur dioxide emissions (g/t crude output)	6.05	5.46
Intensity of oxynitride emissions (g/t crude output)	75.47	52.52
Intensity of particulate matter emissions (g/t crude output)	9.46	7.07

To reduce the impact of its business operation on the atmospheric environment, Hongbo Mining has adopted the corresponding measures, including adding natural gas collection devices to all wellheads for centralized recycling; replacing oil well maintenance equipment with oil and gas dual-purpose boilers or pure gas-fired boilers for heating; strengthening vehicle management; strictly controlling the number of vehicles; reducing frequency of use; and continuing to phase out large-displacement fuel-hungry engineering vehicles in a planned way to reduce petrol and diesel consumption.

According to the environmental impact assessment report issued by a third-party agency during the reporting period, the ratio of maximum landed concentration of atmospheric pollutant emission to standard concentration emitted by Hongbo Mining was only 0.23%, indicating that its business operation does not have a significant impact on ambient air quality.

The Company mainly focuses on investment and management of global energy assets. In terms of investment, the Company has successfully made deployments along the clean energy (natural gas) industry chain because natural gas, as a clean energy source, can reduce sulphur dioxide and dust emissions by nearly 100%, carbon dioxide emissions by 60% and oxynitride emissions by 50%.

- In July 2017, the Company, through its subsidiary, completed the subscription of shares allotted by Jiangxi JOVO Energy Company Limited (江西九豐能源有限公司) (“JOVO”) by making an investment of RMB100 million. JOVO has begun operation from 1990 and is principally engaged in clean energy businesses, including importing, processing and sale of the industrial products of liquified petroleum gas and LNG.

³ The HKEx “Appendix 2: Reporting Guidance on Environmental KPIs” requires disclosure of driving mileage data by vehicle type, but as statistics on this indicator were not collected during the reporting period, data of oxynitride and soot resulting from petrol and diesel combustion is not disclosed in this report.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- In February 2018, the Company, through its subsidiary, completed the acquisition of a stake in LNG Quebec Limited Partnership at the purchase price of US\$3.15 million. LNG Quebec Limited Partnership is developing one of the largest Canadian LNG export terminals under development, with a maximum nameplate liquefaction capacity of up to 11 million tonnes per annum. In July 2018, the Company increased investment of US\$1 million in LNG Quebec Limited Partnership.
- In June 2018, the Company, through its subsidiary, acquired a 9.9% equity in Liquefied Natural Gas Limited (“**LNGL**”) listed on the Australian Securities Exchange with A\$28.20 million (approximately HK\$166.8 million), becoming the second largest shareholder of LNGL. LNGL owns and operates the United States (“**U.S.**”) new LNG export terminal project that has obtained all approvals and has a planned production capacity of more than 8 million tonnes per year. This project is considered to be one of the most viable LNG projects in the US.
- In September 2018, the Company, through its subsidiary, has enter into the agreement for a joint venture with JUSDA Supply Chain Management International CO., LTD. (“**JUSDA**”) and the management team, established a joint venture company to provide liquefied natural gas (“**LNG**”) logistics transportation solutions, including LNG tank logistics business. The joint venture company aims to provide separate LNG logistics services to the industry, to satisfy the global demand for LNG.

2.1.3 Waste Generation and Management

All oil and gas exploitation projects of Hongbo Mining are contracted, but Hongbo Mining is responsible for supervision of waste transfer and storage of the contractors. Hongbo Mining attaches great importance to waste generation, gathering, transport, storage and disposal. Typically, Hongbo Mining signs a service contract with a project contractor, supervises its waste disposal, and conducts strict acceptance inspection of waste disposal. By promoting technological innovation, improving management mechanisms, adopting centralized recovery, and improving utilization efficiency, Hongbo Mining has been continuously advancing non-hazardous disposal and resourcification of waste.

Waste Emissions	FY 2018	FY 2017
Total hazardous waste emissions (t)	11.98	14.88
Oil sludge(t)	11.98	14.88
Intensity of hazardous wastes (kg/t crude output)	0.23	0.31
Total non-hazardous waste emissions (t)	121.89	148.45
Waste packaging materials (t)	2.50	2.20
Scrap metal (t)	99.00	128.00
Domestic waste (t)	20.39	18.25
Intensity of non-hazardous wastes (kg/t crude output)	2.31	3.05

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hazardous Waste

The main hazardous wastes resulting from the crude oil exploitation, treatment, storage and formation testing activities of Hongbo Mining are collectively referred to as oil sludge, including paraffin wax coagulated from crude oil, heavy oil deposited on tank bottoms, flocs formed by cleaning agents during wastewater treatment, and waste resulting from pipeline corrosion. These substances have some toxicity and flammability and if directly discharged without proper treatment will cause pollution to soil, water and air and if landfilled without remediation will cause serious pollution to underground water and seriously damage the existing ecosystem such as trees and vegetation.

In line with the principle of reducing and recycling, Hongbo Mining has engaged a professional third-party team to design and expand the sewage treatment system, which has increased the treatment capacity by 5 times. This greatly reduced the suspended substance in the sewage, thereby reducing the sediment in the pipeline and the corrosion to the pipe wall. Meanwhile, Hongbo Mining has taken effective measures to reduce oil sludge, including injecting liquid active solvents into producing wells and washing the wax deposited on well walls and bottoms with high-temperature liquid on a regular basis; and washing pipelines with neutral or faintly acid aqueous solutions to accelerate breakdown of coagulations and sediments and achieve grease and grime removal. Hongbo Mining has formulated the Hongbo Mining Plan for Managing Hazardous Waste regarding hazardous waste collection and disposal, with a dedicated environmental protection officer responsible for having the equipment cleansed on a regular basis and supervising relevant personnel to transport hazardous wastes to the gathering and transportation station for centralized disposal, where oil sludge and other wastes are converted to non-hazardous wastes through a series of processes including heating, filtration, precipitation and dehydration. This work is contracted to a local certified hazardous waste disposal company.

Hongbo Mining has recycled all waste toner cartridges by adding carbon powder and did not generate any hazardous office waste including waste toner cartridge during the reporting period.

Non-hazardous Waste

Non-hazardous waste generated by Hongbo Mining from its business activities mainly includes packaging materials of purchased equipment, scrap metal (tools, wires and parts) and domestic waste.

Hongbo Mining has striven to reduce the generation of non-hazardous waste by tackling their sources through multiple effective measures, including: adopting new techniques; using the sucker rod centralizer and oil tube lining to reduce the eccentric wear caused by long-term sucker rod trips on the oil tube, prolong the workover intervals of oil wells, and reduce waste pipes caused by sucker rod fray; maintaining, repairing and treating for corrosion resistance pipelines on a regular basis to extend their service life; using neutral detergents to extend the service life of pipelines and equipment; repairing and reusing decommissioned pipelines, with the decommissioned pipelines being put into use again safely after expiration of service life accounting for approximately 25% of all decommissioned pipelines; advocating paperless office and repairing and reusing electronic products such as computers, so that Hongbo Mining did not generate any office waste including computer scrap during the reporting period; and separating domestic wastes by type to facilitate disposal.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hongbo Mining separates non-hazardous wastes by type, with solid wastes that cannot be reused such as packaging materials and scrap metal being handed over to qualified solid waste disposal companies and domestic wastes being transported to sites designated by competent local authorities for centralized disposal in accordance with local environmental requirements.

2.1.4 Wastewater Management

The Company and its subsidiaries have strictly complied with relevant laws and regulations and national, local and industry standards including Water Law of the People's Republic of China (《中華人民共和國水法》), Water Pollution Prevention and Control Law of the People's Republic of China (《中華人民共和國水污染防治法》) and Integrated Wastewater Discharge Standard (《污水綜合排放標準》(GB 8978-1996)) by taking the measures of "locating the source, controlling the process, utilizing by different levels and recycling" based on the principle of source control and recycling, which involve collecting the sewage generated during crude oil exploitation through the gathering and transportation station for separation from the crude oil and sedimentation, and then injecting it back to the stratum after wastewater treatment to facilitate oil exploitation. The whole system is a closed loop where the wastewater can be fully recycled, thereby achieving zero emission.

During the reporting period, the wastewater generated from oil exploitation was completely injected back to the stratum with a reinjection rate of 100%, which significantly reduced consumption of fresh water.

Wastewater Emissions	FY 2018	FY 2017
Domestic sewage discharge (t)	25,550	29,200

Having been biologically degraded to meet the discharge standard, all the domestic sewage was discharged for vegetation irrigation.

2.2 Use of Resources and Management

Hongbo Mining has adopted measures to use electricity, water, petrol and diesel more efficiently with a view to improve resource utilization. The Company has initially established calculation systems for resource consumption, including the initial establishment of calculation systems for fresh water and natural gas, which separately calculate water for production, water for oilfield water injection and domestic water and separately calculate natural gas for domestic use, natural gas for power generation and natural gas for heating furnace in the production system, in order to achieve scientific and reasonable dispatch and utilization of fresh water and natural gas. The Engineering Operation Department of Hongbo Mining has revised the Company Vehicle Management System which regulates the use of petrol and diesel by strictly stipulating the speed of vehicles, filling in a monthly statement of vehicle use, and checking the fuel consumption of vehicles from time to time.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.2.1 Energy Management

The Company and its subsidiaries have strictly complied with the Energy Conservation Law of the People's Republic of China (《中華人民共和國節約能源法》) and relevant requirements of the Plan of Integrated Work of Energy Conservation and Emission Reduction during the 13th Five-year Plan Period (《“十三五”節能減排綜合工作方案》) to become resource-conserving enterprises.

The Company's energy consumption is mainly from its subsidiary, Hongbo Mining, whose main sources of energy consumption include electricity for well site equipment, gas and oil gathering and transmission, and water filling; petrol for cars for inspection and supervision purposes; diesel for engineering vehicles, generators for well sites without grid connection, and domestic heating on project site in winter; and natural gas as domestic fuel and for winter heating and combustion-based electricity generation.

In daily management, Hongbo Mining has responded to the call for energy conservation and environmental protection by adhering to the guidelines of using clean energy and improving energy efficiency. Measures include strengthening vehicle management by centrally scheduling vehicle use, planning routes efficiently, merging trips and sharing vehicles wherever possible, and phasing out large-displacement fuel-hungry engineering vehicles; and using energy-efficient electric motors in well site equipment and installing more variable frequency electric control cabinets and reactive power compensation devices.

Energy Consumption	FY2018	FY2017
Total power consumption (kWh)	7,603,284	6,964,830
Petrol consumption (t)	40.82	42.41
Diesel consumption (t)	294.24 ⁴	230.25
Associated natural gas consumption (10,000 normal cubic metres)	177.00	145.29
Comprehensive energy consumption ⁵ (1,000 kWh)	48,118.88	41,848.65
Intensity of comprehensive energy consumption (kWh/t crude output)	910.19	859.63

During the reporting period, Hongbo Mining consumed 1.734 million normal cubic metres of associated natural gas for heating (saving 67,506.35 GJ of thermal energy) and 36,000 normal cubic metres of associated natural gas for electricity generation (saving approximately 63,000 kWh of electricity).

⁴ Some of the producing wells newly put into production were not connected to the grid, and diesel generators were used to supply electricity, resulting in an increase in diesel consumption during this reporting period.

⁵ Calculation on this indicator performed with reference to converted standard coal coefficient data in China Energy Statistical Yearbook (《中國能源統計年鑒》) and General Principles for Calculation of the Comprehensive Energy Consumption (《綜合能耗計算通則》) (GB/T 2589-2008), etc.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.2.2 Water Resource Management

Hongbo Mining's water resource management goal is to achieve 100% produced water treatment, 100% produced water reinjection, and efficient and controlled use of fresh water.

Hongbo Mining's main sources of water use include water use for well drilling, completion and maintenance, water injection to supplement producing energy and increase oil recovery, and a small amount of domestic water.

In its production and operation process, Hongbo Mining has adopted measures in the following aspects to conserve water resource:

- Adopting clean production processes and implementing water saving practices to increase water recycling and reduce water withdrawal.
- Ensuring effective day-to-day maintenance, keeping the pipeline network in normal working condition, guaranteeing safe water supply, and preventing pipeline seepage, with all anti-seepage measures having a permeability coefficient of less than $1.0 \times 10^{-7} \text{cm/s}$.
- Cleaning wells with treated wastewater, which not only reduces the use of flushing fluid but also mitigates pollution and damage to oil reservoir, and recycling flushing liquid.

In the future, Hongbo Mining will establish a dynamic water use monitoring system capable of real-time monitoring and control of makeup water to achieve optimal water use, where production and living water are planned and supplied according to quantity and quality requirements to maintain water balance.

Water resource consumption	FY2018	FY2017
Fresh water consumption (cubic metre)	163,910⁶	55,515
Intensity of fresh water consumption (cubic metre/t crude output)	3.10	1.14

During the reporting period, the Company did not have any violation regarding water usage.

⁶ During the reporting period, due to the business and working conditions, Hongbo Mining took measures to inject water into the mine and increase pressure, resulting in an increase in fresh water consumption. Since the need to inject fresh water is greatly affected by factors such as the geological conditions of the mining area, there are no regular changes in the annual fresh water consumption and consumption intensity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

2.2.3 Land Rehabilitation

Oil field development will create a new artificial ecosystem, and its environmental impact is mainly shown as the excavation face being not entirely rehabilitated, leading to reduced vegetation coverage, vegetation biomass loss, and impaired vegetation structure.

Based on the guidelines of relevant documents such as the Guidance on Gradual Establishment of the Responsibility Mechanism for Environment Control and Ecology Recovery of Mine Fields (《關於逐步建立礦山環境治理和生態恢復責任機制的指導意見》) and the Notice on Matters Relating to Reporting and Review of Land Rehabilitation (《關於組織土地復墾編報和審查有關問題的通知》), Hongbo Mining has formulated and issued its Land Rehabilitation Plan which combines rehabilitation engineering and project development with the focus on comprehensive environment management for construction projects by prioritizing ecology protection and integrating a succession of measures including land levelling, topsoil coverage, forestation and grass plantation to achieve “exploiting while rehabilitating”. In accordance with the requirements of national environmental protection authorities, all projects of Hongbo Mining have participated in the acceptance inspection until pass.

2.3 Innovation and Safety

2.3.1 Technological Innovation

The Company and its subsidiaries’ innovation-driven performance enhancement policy is underpinned by the respect for labour, for knowledge, for talent, and for creation and encourages team collaboration as well as independent innovation. The Company and its subsidiaries have a Core Talent Development Program geared to developing high-level talent and making innovations in urgently needed technologies and has formed a strong R&D team led by leading technologists to support the innovation-driven sustainable development. The Company’s subsidiary Hongbo Mining, based on its Staff Innovation Workshop, has mobilized its staff at various levels to make technological innovations in various ways including joint research to make breakthroughs in key technologies, technological renovation, invention, repair and waste recycling. By organising activities such as collaborative research in key technologies, management innovation and project-based research and promoting advanced concepts, technologies and methods, Hongbo Mining has solved technical bottlenecks confronting its oil blocks and achieved steady progress in its exploration and development capabilities. Hongbo Mining won the Inner Mongolia Autonomous Region level “Xilin Gol League Staff Innovation Workshop” title.

2.3.2 Safe Production

The Company and its subsidiaries care for every employee and is committed to protecting their health. They strictly comply with Work Safety Law of the People’s Republic of China (《中華人民共和國安全生產法》) and Law of the People’s Republic of China on Prevention and Control of Occupational Diseases (《中華人民共和國職業病防治法》) and adhere to the guideline of “safety first, prevention foremost, and integrated management”, always highlighting occupational health, work safety and environmental protection as an important part of its corporate social responsibility and reflecting this commitment into the full life cycle of Hongbo Mining’s production and operation activities. It has established a health, safety and environment (“HSE”) management system and an operating mechanism which integrate decision management, business operation, technical support, and regulation and incentivization.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, the Company and its subsidiaries did not have any violation of China's relevant current labour and safety laws and regulations or experience any major accident seriously jeopardizing employee safety or causing employee death, with zero lost workday due to work-related injury.

Improvement of HSE System

Hongbo Mining has been committed to continuously improving its HSE system by striving to establish comprehensive management and implementation mechanisms in line with its HSE system and mechanism, including a safety work leading group led by the general manager which is responsible for enforcing safety management down to every production team and every employee and providing strong organizational support for HSE supervision and decision-making. Adhering to its standard of HSE system, Hongbo Mining has planned, formulated and amended more than 30 safety and health management rules including Employee Safety Manual, Common Non-Compliances and Corrective Actions, Hazardous Source Identification and Risk Assessment Control Management System, Operation Permit Management System, Traffic Safety Management System, Safety Reward and Punishment System, Special Equipment Safety Management System, and Emergency Management System, and improved its HSE evaluation mechanisms, including by establishing a safety incentive fund to improve HSE management performance.

Strengthening Risk Management and Control

Hongbo Mining has been committed to developing its environmental and safety responsibility enforcement and level-based risk control mechanisms, allocating registered safety engineers to carry out the company's safety supervision and management, and improving its emergency response force comprising full-time and part-time roles. It has conducted emergency drills, completed the accident risk assessment report, revised the company's production safety accident emergency plan and reported it to the government authorities for record. In accordance with the requirement of "double duties in one position", Hongbo Mining implements major responsibilities in ensuring safe production and conducts safety hazard identification to identify and remove all types of problems and hazards in a timely manner while advancing the institutionalization and standardization of hazard identification and control.

Safety Education for Employees

The Company and its subsidiaries have stringent requirements on employee safety training, with safety training covering all employees, and on-boarding training covering all new recruits. Hongbo Mining has been committed to increasing employees' safety awareness by organizing different types of safety training on a regular basis and publicizing HSE in various forms and through different channels, such as safety education in employee orientation, special equipment safety learning, traffic safety training, daily safety education, safety education for workers from contractors and educational safety video watching, to ensure employees' work safety competence and compliance. Hongbo Mining has established an integrated HSE training system based on solid HSE theory and rich content, covering HSE management concept, job responsibility awareness and emergency response management.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Protection of Occupational Health of Employees

The Company and its subsidiaries have been committed to strengthening their employee occupational health management systems and have established an occupational health management accountability mechanism which involves the appointment of dedicated occupational health officers, the engagement of qualified agencies to conduct workplace occupational health assessment and testing on a regular basis, and the supervision of hazardous process rectification. The Company and its subsidiaries also provide health check for employees before employment, on the job and before separation and maintain their occupational health records, in addition to providing all employees with safe working conditions and adequate labour protection and carrying out employee occupational health monitoring and education, thereby implementing occupational health management in a comprehensive, well-regulated way. During the reporting period, the Company and its subsidiaries experienced no new occupational disease case.

III. COMPLIANT BUSINESS OPERATION TO BUILD A SAFE AND HARMONIOUS PRODUCTION CHAIN

The Company and its subsidiaries adhere to compliant business operation based on comprehensive compliance management policies covering business integrity, external communication, professional ethics, internal relation management, corporate interest maintenance, and taking social responsibility. The Company and its subsidiaries are committed to communicating with all internal and external stakeholders to achieve mutual benefit and win-win.

3.1 Anti-corruption

The Company and its subsidiaries strictly comply with laws and regulations relating to anti-corruption, anti-extortion, anti-fraud and anti-money laundering including the Criminal Law of the People's Republic of China (《中華人民共和國刑法》), Anti-money Laundering Law of the People's Republic of China (《中華人民共和國反洗錢法》), the Prevention of Bribery Ordinance (《防止賄賂條例》). In corporate development, the Company and its subsidiaries have proceeded in a way which combines clean governance and business growth by building an ideological and institutional firewall against corruption, which clearly defines the rights and obligations of the shareholders' meeting, board of directors and the management under a check and balance mechanism where the decision-making, management and supervision functions are relatively independent from one another, and inculcating correct values. The Company has established an internal management committee led by the president with members comprising vice presidents in charge of various divisions, which operates in accordance with the principle of democratic centralism to eliminate "rule by the voice of one man alone" and backroom dealing, and enforce coordination, mutual supervision, and synergistic collaboration.

The Company and its subsidiaries make continuous innovation in education methods and carry out in-depth education of honest practices. On one hand, the Company and its subsidiaries have provided special coverage of anti-corruption in the section headed "Basic Literacy and Business Etiquettes of Employees" in the induction training materials for new employees; on the other hand, the Company and its subsidiaries have distributed the Employee Handbook (《員工手冊》) which clearly prohibits deliberate fabrication, leakage of confidential information, corruption, embezzlement, misappropriation, dinner invitation and gift exchange among the employees to improve employee loyalty and integrity.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

The Company has established a comprehensive top-down system, which requires continuously improving the systems in various aspects such as corporate operation, procurement, sales, project budget and final accounting, capital and finance and strengthening corporate self-discipline and internal control mechanisms. The Company's subsidiary Hongbo Mining requires signing suppliers and contractors to sign statements of honest practice to prevent commercial bribery while encouraging employees to file complaints or blow the whistle directly by passing the immediate leadership for non-compliance identified. If the non-compliance is proven to be true, the responsible person will be dismissed immediately, subject to further sanctions through litigation if the circumstance is severe. This represents an approach of combining process control and violation punishment to prevent non-compliance.

The Company and its subsidiaries, in response to the national call to improve party conduct, uphold integrity and fight corruption, has organized various party member and non-party member employee workshops and trainings on relevant topics to increase the overall integrity awareness of the staff, build a corporate firewall against corruption and resolutely put an end to the violation of the national call to improve party conduct, uphold integrity and fight corruption.

During the reporting period, the Company and its subsidiaries experienced no litigation brought against it or its employees on corruption charge.

3.2 Ensuring Production Quality and Consolidating Customer Relationship

The Company attaches importance to product quality responsibility, and Hongbo Mining, as the Company's only product manufacturing subsidiary, has always deemed engineering quality as the lifeline for its existence and development and inculcated the management goal of "building top projects with excellence in every detail" in the mind of every employee. Besides strictly complying with national standards and quality specifications for the petroleum and natural gas industry, Hongbo Mining, in the light of its own conditions, has formulated and issued internal construction management specifications, quality management rules, assessment standards and punishment rules, which in some cases impose even more stricter requirements than industry standards. These internal specifications and rules are reviewed, adjusted and optimized annually to reflect the company's business development and priorities.

In product quality management, during the reporting period, Hongbo Mining summarized the abovementioned systems and formulated a guidebook integrating its existing acceptance and other procedures to make all work procedure-based and under control. In employee management, it has always focused on the three dimensions of safety, quality and speed, where managers have the whole picture in mind and pay attention to detail as well throughout the project by directly controlling major processes, supervising key links, eliminating all hazards, and strictly enforcing acceptance standards. It has focused on the technical disclosure before construction and acceptance of conditions for commencement of construction, further promoted workplace standardization and emphasized process control in engineering. It has put in place a "three inspections" system-self-inspection by contractor, mutual inspection by collaborative entities, and special inspection by the supervision department, to ensure its effective implementation based on clear accountability. In line with the principle of "fairness, justice and openness", Hongbo Mining has put the construction teams under comprehensive oversight and evaluation in extensive aspects including materials, manning, construction progress, project quality, work safety and environmental protection, and given rewards to excellent construction teams, with clearly defined punishments for non-compliances and violations. Through the combination of rewards and punishments, Hongbo Mining has urged the engineering teams to learn from other's strong points to offset its weakness. During the reporting period, in particular, Hongbo Mining further substantiated and refined evaluation of such aspects as oil reservoir protection and wellbore quality. Through these measures, Hongbo Mining has put in place a fairly comprehensive quality supervision system.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Hongbo Mining has taken the following specific measures to control product quality: 1) using double tanks circulation storage to reserve enough sedimentation time and ensure the concentration of crude oil products; 2) engaging internationally recognized third-party agencies to perform product testing; 3) increasing product quality testing frequency from once a year to once every half year; 4) providing standby weighing equipment for sales to improve weighing accuracy; and 5) asking the quality inspection authority to calibrate its measuring equipment on a regular basis to increase measuring accuracy and avoid measuring errors. In addition, Hongbo Mining has strictly complied with relevant regulations including Measures for the Administration of the Crude Oil Market (《原油市場管理辦法》) and Administrative Measures for Oil Prices (《石油價格管理辦法》) in product pricing and sale.

Hongbo Mining has committed to protecting customer privacy in accordance with the law and has included a confidentiality clause in contracts, among other measures. The Company and its subsidiaries do not involve advertising and labelling in the process of providing products.

During the reporting period, the Company and its subsidiaries did not have any significant violation regarding product or service liability or privacy matters.

3.3 Supplier Management

Hongbo Mining is the sole subsidiary of the Company with businesses involving exchange and cooperation with suppliers during its production and operation. By service type, Hongbo Mining's suppliers are divided into engineering contractors (36: 13 in Xilin Gol League and 23 outside) and material suppliers (42: 9 in Xilin Gol League and 33 outside).

Hongbo Mining has attached great importance to the responsibility management of its engineering contractors and material suppliers by strictly implementing its supplier admission, maintenance, management and removal procedures to ensure that their products and services always meet its relevant requirements:

- Conducting strict preliminary review, with focus on obtaining the background information of the enterprise, such as the strength in technology, management, capital and other aspects. Hongbo Mining has established a contractor assessment group with members comprising the heads of its various business departments to select contractors through tender and negotiation based on the principles of quality first and fair competition;

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

- In light of the accumulated experience and market conditions over the years, analysing the cost structure in detail, formulating reasonable price range, and eliminating malicious competition through low price;
- Signing the HSE statement and including it in Hongbo Mining's safety management system and convening special meetings on safety on a regular basis;
- Strengthening tracking of key procedures and enforcing comprehensive supervision by implementing comprehensive management of service providers to ensure high-quality services and products;
- Further improving the requirements of construction safety and product quality, and urging contractors and suppliers to update concepts and upgrade equipment, in order to advance with the times to achieve technological progress and increase production efficiency;
- Conducting graded evaluation and regular quality assessment of the products or services provided, continuously improving the awareness of responsibility and service ability of suppliers and striving to build a sustainable service chain and supply chain to achieve win-win and mutual development with the suppliers;
- Carrying out year-end inspection and visit to major suppliers to register and verify basic information, inspect their management systems and have face-to-face communication with managerial personnel in order to get a truthful understanding and comprehensive assessment of their business operation and reduce the operating risk and bring it under control;
- Procuring within a radius of 1,500 kilometres from the oilfields and from qualified oilfield equipment manufacturers which hold API (American Petroleum Institute) certification and have been approved by China National Petroleum Corporation and Sinopec Group, based on the principle of mainly sourcing from suppliers possessing ISO9001, ISO14001 and OHSAS18001 certifications and complementing it with local procurement of small spare parts, with all suppliers and service providers being confirmed in the Hongbo Mining's supplier and provider database under a well-documented procedure-based system.

During the reporting period, Hongbo Mining included all its engineering contractors in its supplier management system, with 23 material suppliers obtaining API certification or ISO management system certifications. It will introduce more qualified enterprises with certifications to become strategic partners and establish a win-win relationship for sustainable development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

IV. CARE FOR EMPLOYEES AND MUTUAL DEVELOPMENT

4.1 *Employment and Protection of Employees' Rights and Benefits*

The Company and its subsidiaries put people first, respect and protect the lawful rights and interests of their employees and implement a labour policy of equality and non-discrimination, and are committed to continuously refining its democratic system, building an excellent career development platform for employees, advancing workforce localization and diversification, providing employees with a fair and harmonious work environment, and achieving common growth of the enterprise and the employees.

Employment Policy

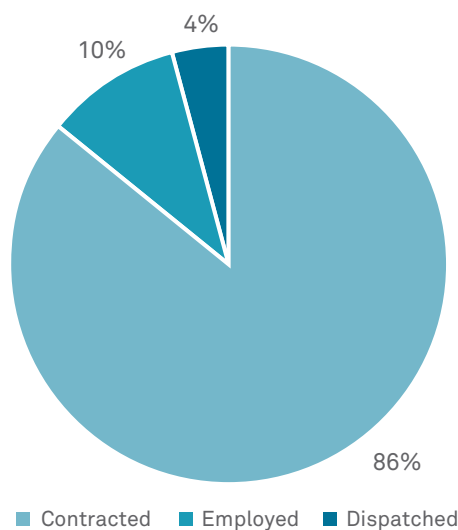
The Company and its subsidiaries strictly comply with the Law of Employment Promotion of the People's Republic of China (《中華人民共和國就業促進法》), Labor Contract Law of the People's Republic of China (《中華人民共和國勞動合同法》) and other laws and regulations on recruitment and promotion, dismissal, working hours, etc., and have established comprehensive employment management rules and systems, implemented fair and non-discriminatory employment policy, including fair and just treatment to employees with different nationalities, skin colors, ethnicities, genders, religions and culture background. The Company enters into labour contracts with its employees with a signing rate of 100%. The Company has set up a working hour system with no more than 8 hours of work time per day. The Company confirms the age of job applicants by reviewing the identity, verifying the qualification and checking the contribution to social security fund, and strictly prohibits the employment of child labour in any form. In order to implement the paid leave system, the Company has taken various measures such as signing of agreements and strict supervision of working times to eliminate forced labour. The Company has established a staff recruitment system, reasonable and fair recruitment of personnel to meet the requirements of the Company's positions. The Company has developed an Employee Handbook that requires all employees to learn and follow through. Meanwhile, the Company attaches great importance to the business ability of human resources personnel in all levels, and organizes various trainings related to labour policies and regulations.

During the reporting period, the Company and its subsidiaries did not have any violation relating to employee rights and other labour regulations, and no child labour and forced labour incidents occurred.

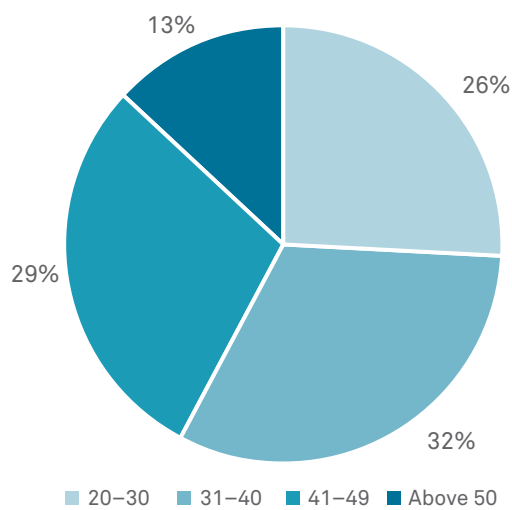
During the reporting period, the Company and its subsidiaries had a total of 115 employees, with 13 employees leaving, representing a turnover rate of 11.30%. In view of factors including the Company's scope of business and work environment, it has more male employees than female employees, but there is no discrimination for gender, race, region or any other reason.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Distribution of the Employees by Employment Type of the Company

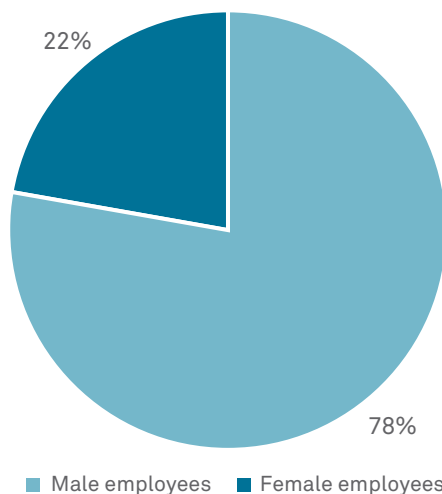


Distribution of the Employees by Ages of the Company

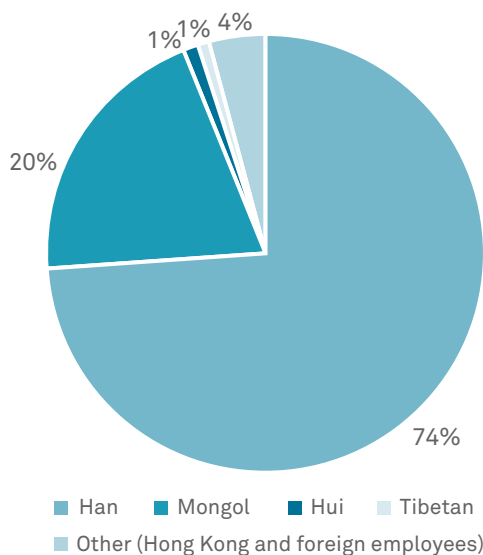


ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Distribution of the Employees by Genders of the Company

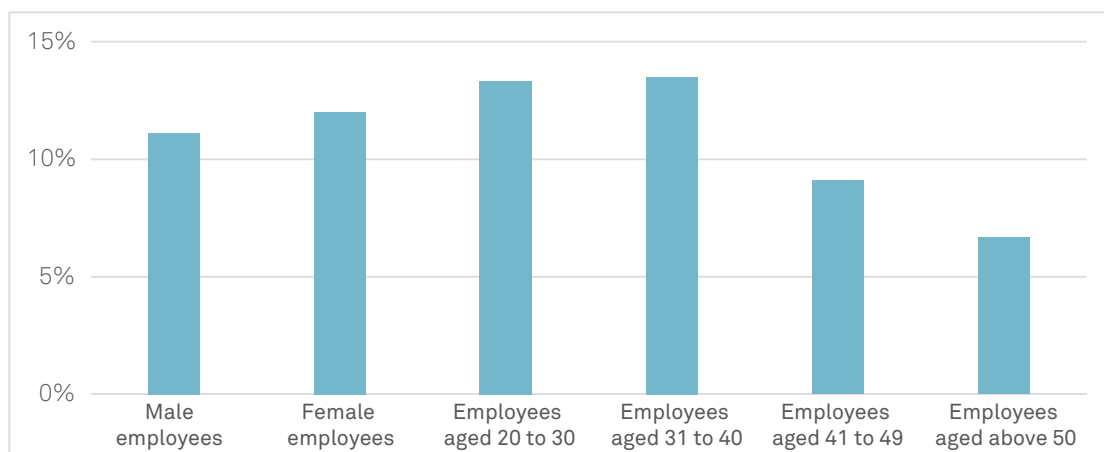


Distribution of the Employees by Ethnicities of the Company



ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employees Turnover Proportion⁷ by Genders and Ages of the Company



Democratic Management

The Company and its subsidiaries have established a sound mechanism of democratic management, emphasize on giving play to the employees' function in democratic management, democratic participation and democratic supervision, and publish all matters related to the rights and benefits of their employees. The Company and its subsidiaries insist on implementing democratic procedures, strengthen the disclosure of factory operation through multiple channels such as departmental meetings or regular meetings of the Company, special meetings for business discussion, face-to-face conversations, internal publications and the social media platform such as WeChat, encourage the employees to participate in the discussion and receive opinions from the employees.

Remuneration and Benefits

The Company and its subsidiaries have established a protective and competitive system of remuneration and benefits and built a system of remuneration management based on job position, personal ability and performance, which geared to achieving effective interaction between corporate performance and employee income. The Company and its subsidiaries have committed to optimizing their remuneration structures with innovative incentives and remuneration communication to make allocation fair and scientific. The Company has strictly complied with national social security, employee welfare and other relevant regulations by making corporate contributions to their social security accounts such as pension, medical care, work-related injury, maternity, unemployment and housing provident fund with a social security coverage rate of 100%. Meanwhile, it provides employees with commercial insurance and other benefits including paid annual leave.

During the reporting period, the Company and its subsidiaries did not have any violation relating to employee remuneration, working time, equality of opportunity, anti-discrimination and other welfare matters.

⁷ Example of calculation method: male employee turnover as a proportion of the total number of male employees

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

4.2 Employee Training and Career Development

The Company and its subsidiaries support talent cultivation, attach importance to facilitating talent education, pay attention to the improvement of professional ability and comprehensive quality of their employees, establish a career development platform that enables mutual development of the Company and its employees, adhere to the guidelines of “providing quality training to facilitate development”, form a comprehensive training system with multiple layers, formulate training plans based on the advices and recommendations from the employees, and provide the employees with planned trainings related to corporate culture, professional knowledge, post skills and comprehensive quality. In addition to taught trainings, the Company and its subsidiaries also offer other trainings in various forms such as self-learning, special seminars, exchange sessions and job rotation, in order to enhance the training efficiency and result and continuously improve the employees’ knowledge and working initiatives. During the reporting period, the training program of the Company and its subsidiaries covered 100% of the employees, with each employee receiving an average of 32 hours of training.

Based on the training needs collected from different departments every year, the Company and its subsidiaries formulate a training plan for all employees at the beginning of every year and implement such plan according to priority in the quarters. After the completion of relevant professional and personal improvement trainings, the Company and its subsidiaries collect feedbacks from the trained employees in a timely manner. The trainings during the reporting period were well received, which provided supplemental knowledge and skills improvement for the employees’ career development.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

During the reporting period, trainings organized by the Company and its subsidiaries included: 5 sessions of investment and management trainings, 7 sessions of professional technical trainings, 8 sessions of personal improvement trainings, 10 sessions of safety trainings, and other special trainings.

Investment and Management Trainings	
China natural gas market trainings	Financial model and valuation presentation
International Maritime Organization (IMO) 2020 new regulations trainings	Private fund taxation seminar
Hong Kong new fund tax policy and Cayman economic substance law interpretation and sharing	
Professional Technical Trainings (Hongbo Mining)	
Special operation trainings (height climbing, pressure vessel, welding, high and low pressure)	Oil production, gathering and transportation technology competition
Well control trainings	Hydrogen sulphide protection trainings
HSE management position trainings	Level 3 drilling supervision trainings
Special trainings on HSE laws and regulations	
Personal Improvement Trainings	
Corporate culture and professional quality	Leadership development trainings
New individual income tax practice trainings (2 sessions)	New employee orientation trainings (4 sessions)
Safety Trainings	
Special trainings on HSE laws and regulations	Special trainings on safety hazard detection
Full-time and part-time safety officer certification trainings	Fire drill (5 sessions)
Full-time and part-time driver trainings	Outsourcing unit entry trainings

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Employee Promotion Mechanism

The Company and its subsidiaries, in view of employees' career development needs and in the light of the characteristics of different types of talent, have committed to improving its two-channel career development system where employees can choose to develop towards the managerial or specialised direction, supported by platforms and mechanisms geared to "unleashing and utilising the talent of everyone". In this regard, it has put in place fair and scientific assessment methods to ensure that high-calibre employees stand out while continuously expanding the career development potential for all employees and providing them with a career development ladder whether an employee is of a managerial or professional technical rank and the corresponding resources to support the effective implementation of these mechanisms. Base on the Company's staff development philosophy, Hongbo Mining formulated and implemented the Measures on Talent Pipeline Development for Middle Management (《中層後備人員管理辦法》) with clear procedures of rank determination and promotion for different positions.

4.3 Employee Care

In order to improve the family living standards of employees with difficulties, the Company and its subsidiaries gradually implement employee assistance programs to care for employees with difficulties, establish a normal mechanism for visiting employees with difficulties, carry out the activities of "sending warmth and giving love" and set up a major disease support system, thus gradually forming a sustainable poverty alleviation system with full coverage, strong support and multi-participation.

The Company and its subsidiaries have always placed employee health at the core of the Company's development, integrated corporate health management resources to promote the integrated management of employees' occupational health, physical health and mental health based on occupational disease prevention and control, and at the same time strengthened the construction of cultural and sports venues and fitness facilities for employees, organized the investigation of employees' health status risks, carried out outdoor activities, film watching, summer sunstroke prevention and other cultural and sports activities to improve the physical and mental health of employees.

V. COMMUNITY SERVICES AND CONTRIBUTION TO THE SOCIETY

The Company and its subsidiaries have committed to developing a platform of communication with local production and operation community, Hongbo Mining, as the sole production subsidiary of the Company, established the public relations department serving as the interface of communication in line with the guideline of "mutual benefit, win-win and common development" to listen to and understand their expectations and concerns, increase mutual understanding, better accommodate local traditions and customs, and promote community engagement, thereby delivering value on different dimensions including job creation, environmental protection, poverty relief, and tax payment and driving and promoting local economic, social and cultural development.

During the reporting period, parts of the Company and its subsidiaries' participation and investment in social welfare projects are as follows:

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Poverty Alleviation

Helped local herders resist ice and snow and clear roads, and provided assistance for 20 herder households.

Interaction with Community

Invited the local herdsmen and local army to carry out various culture activities.

Employment

Arranged employment for the local community, with some employees of the Company being from the local community.

Through the cooperation with the local government, non-profit organizations and non-governmental entities, the Company and its subsidiaries have built a positive image within the local community, created a harmonious social environment and made contribution to the overall development and harmonious improvement of the community.

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

APPENDIX – INDEX TO THE ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORTING GUIDE OF THE HONG KONG STOCK EXCHANGE

Environmental, Social and Governance Reporting Guide		Page Number	Content of the Report
Subject Area A. Environmental			
Aspect A1: Emissions			
A1	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to air and greenhouse gas emissions, discharges into water and land, and generation of hazardous and non-hazardous waste.</p> <p><i>Note:</i> Air emissions include NO_x, SO_x and other pollutants regulated under national laws and regulations.</p> <p>Greenhouse gases include carbon dioxide, methane, nitrous oxide, hydrofluorocarbons, perfluorocarbons and sulphur hexafluoride.</p> <p>Hazardous wastes are those defined by national regulations.</p>	75 76-81	II. Environmental Protection and Green Development 2.1 Emissions Management
A1.1	The types of emissions and respective emissions data.	78 81	2.1.2 Waste Gas Generation and Management 2.1.4 Wastewater Management
A1.2	Greenhouse gas emissions in total (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	77	2.1.1 Reduction of Greenhouse Gas Emissions
A1.3	Total hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	79	2.1.3 Waste Generation and Management
A1.4	Total non-hazardous waste produced (in tonnes) and, where appropriate, intensity (e.g. per unit of production volume, per facility).	79	2.1.3 Waste Generation and Management
A1.5	Description of measures to mitigate emissions and results achieved.	77 78-79 81	2.1.1 Reduction of Greenhouse Gas Emissions 2.1.2 Waste Gas Generation and Management 2.1.4 Wastewater Management
A1.6	Description of how hazardous and non-hazardous wastes are handled, reduction initiatives and results achieved.	79-81	2.1.3 Waste Generation and Management

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspect A2: Use of Resources			
A2	<p>General Disclosure</p> <p>Policies on the efficient use of resources, including energy, water and other raw materials.</p> <p><i>Note:</i> Resources may be used in production, in storage, transportation, in buildings, electronic equipment, etc.</p>	81-84	2.2 Use of Resources and Management
A2.1	Direct and/or indirect energy consumption by type (e.g. electricity, gas or oil) in total (kWh in '000s) and intensity (e.g. per unit of production volume, per facility).	82	2.2.1 Energy Management
A2.2	Water consumption in total and intensity (e.g. per unit of production volume, per facility).	83	2.2.2 Water Resource Management
A2.3	Description of energy use efficiency initiatives and results achieved.	82	2.2.1 Energy Management
A2.4	Description of whether there is any issue in sourcing water that is fit for purpose, water efficiency initiatives and results achieved.	83	2.2.2 Water Resource Management
A2.5	Total packaging material used for finished products (in tonnes) and, if applicable, with reference to per unit produced.	–	The products of the Company is crude oil; no packaging material were used, so it is not applicable
Aspect A3: Environment and Natural Resources			
A3	<p>General Disclosure</p> <p>Policies on minimising the issuer's significant impact on the environment and natural resources.</p>	75-84	II. Environmental Protection and Green Development
A3.1	Description of the significant impacts of activities on the environment and natural resources and the actions taken to manage them.	75-84	II. Environmental Protection and Green Development
Subject Area B. Social			
Employment and Labour Practices			
Aspect B1: Employment			
B1	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to compensation and dismissal, recruitment and promotion, working hours, rest periods, equal opportunity, diversity, anti-discrimination, and other benefits and welfare.</p>	90-93	4.1 Employment and Protection of Employees' Rights and Benefits

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

B1.1	Total workforce by gender, employment type, age group and geographical region.	90-92	4.1 Employment and Protection of Employees' Rights and Benefits
B1.2	Employee turnover rate by gender, age group and geographical region.	90, 93	4.1 Employment and Protection of Employees' Rights and Benefits
Aspect B2: Health and Safety			
B2	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to providing a safe working environment and protecting employees from occupational hazards.	84-86	2.3.2 Safe Production
B2.1	Number and rate of work-related fatalities.	85	2.3.2 Safe Production
B2.2	Lost days due to work injury.	85	2.3.2 Safe Production
B2.3	Description of occupational health and safety measures adopted, how they are implemented and monitored.	84-86	2.3.2 Safe Production
Aspect B3: Development and Training			
B3	General Disclosure Policies on improving employees' knowledge and skills for discharging duties at work. Description of training activities. <i>Note:</i> Training refers to vocational training. It may include internal and external courses paid by the employer.	94-96	4.2 Employee Training and Career Development
B3.2	The average training hours completed per employee by gender and employee category.	94	4.2 Employee Training and Career Development
Aspect B4: Labour Standards			
B4	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to preventing child and forced labour.	90	4.1 Employment and Protection of Employees' Rights and Benefits
B4.1	Description of measures to review employment practices to avoid child and forced labour.	90	4.1 Employment and Protection of Employees' Rights and Benefits
B4.2	Description of steps taken to eliminate such practices when discovered.	90	4.1 Employment and Protection of Employees' Rights and Benefits During the reporting period, the Company didn't find any relevant violations

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Operating Practices			
Aspect B5: Supply Chain Management			
B5	General Disclosure Policies on managing environmental and social risks of the supply chain.	88-89	3.3 Supplier Management
B5.1	Number of suppliers by geographical region.	88	3.3 Supplier Management
B5.2	Description of practices relating to engaging suppliers, number of suppliers where the practices are being implemented, how they are implemented and monitored.	88-89	3.3 Supplier Management
Aspect B6: Product Responsibility			
B6	General Disclosure Information on: (a) the policies; and (b) compliance with relevant laws and regulations that have a significant impact on the issuer relating to health and safety, advertising, labelling and privacy matters relating to products and services provided and methods of redress.	87-88	3.2 Ensuring Production Quality and Consolidating Customer Relationship
B6.1	Percentage of total products sold or shipped subject to recalls for safety and health reasons.	–	Not applicable
B6.4	Description of quality assurance process and recall procedures.	87-88	3.2 Ensuring Production Quality and Consolidating Customer Relationship The business of the Company does not involve product recalls
B6.5	Description of consumer data protection and privacy policies, how they are implemented and monitored.	88	3.2 Ensuring Production Quality and Consolidating Customer Relationship

ENVIRONMENTAL, SOCIAL AND GOVERNANCE REPORT

Aspect B7: Anti-corruption			
B7	<p>General Disclosure</p> <p>Information on:</p> <p>(a) the policies; and</p> <p>(b) compliance with relevant laws and regulations that have a significant impact on the issuer</p> <p>relating to preventing bribery, extortion, fraud and money laundering.</p>	86-87	3.1 Anti-corruption
B7.1	Number of concluded legal cases regarding corrupt practices brought against the issuer or its employees during the reporting period and the outcomes of the cases.	87	3.1 Anti-corruption
B7.2	Description of preventive measures and whistle-blowing procedures, how they are implemented and monitored.	86-87	3.1 Anti-corruption
Community			
Aspect B8: Community Investment			
B8	<p>General Disclosure</p> <p>Policies on community engagement to understand the needs of the communities where the issuer operates and to ensure its activities take into consideration the communities' interests.</p>	96-97	V. Community Services and Contribution to the Society
B8.1	Focus areas of contribution (e.g. education, environmental concerns, labour needs, health, culture, sport).	96-97	V. Community Services and Contribution to the Society

INDEPENDENT AUDITOR'S REPORT

To the shareholders of IDG Energy Investment Limited

(incorporated in Bermuda with limited liability)

OPINION

We have audited the consolidated financial statements of IDG Energy Investment Limited (the “**Company**”) and its subsidiaries (the “**Group**”) set out on pages 109 to 182, which comprise the consolidated statement of financial position as at 31 March 2019, the consolidated statement of profit or loss, the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended and notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 March 2019 and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards (“**HKFRSs**”) issued by the Hong Kong Institute of Certified Public Accountants (“**HKICPA**”) and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing (“**HKSAs**”) issued by the HKICPA. Our responsibilities under those standards are further described in the *Auditor's responsibilities for the audit of the consolidated financial statements* section of our report. We are independent of the Group in accordance with the HKICPA's *Code of Ethics for Professional Accountants* (the “**Code**”) together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS

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

Valuation of the Stonehold investment

Refer to note 19(a) to the consolidated financial statements.

The Key Audit Matter

On 14 August 2017, the Group granted a term loan to Stonehold Energy Corporation ("Stonehold") for the purpose of financing Stonehold's acquisition of certain oil and gas related assets of Stonegate Production Company, LLC ("Stonegate") (the "Target Assets") and the subsequent operations of such assets (the "Stonehold investment"). On the same date, Stonehold entered into an acquisition agreement (the "Acquisition Agreement") with Stonegate to purchase the Target Assets.

On 26 September 2017, the initial payment with an amount of US\$165 million (approximately HK\$1,291.1 million) was released to Stonehold and the acquisition of the Target Assets from Stonegate has also been consummated in accordance with the Acquisition Agreement.

The Group is entitled to interest on the principal amount of the Stonehold investment at a rate of 8% per annum (after the making of or the allocation of any applicable withholding tax). The Group is also entitled to additional interest at an amount equal to 92.5% of the remainder cash proceeds received or recovered by Stonehold in respect of any disposal of the Target Assets after repayment of outstanding principal and interest and after deducting fees, costs and expenses reasonably incurred by Stonehold with respect to such disposal, if applicable. The maturity date of the Stonehold investment is 10 years after the initial payment.

How the matter was addressed in our audit

Our audit procedures to assess the valuation of the Stonehold investment included the following:

- checking the calculation of interest income generated from the Stonehold investment;
- utilising our internal valuation specialists to assist us in evaluating the assumptions, inputs and methodology adopted by management in their valuation of the Stonehold investment by checking the computation logic with the key terms of the agreements relating to the Stonehold investment, performing our own valuation and comparing the results with the valuation report issued by the independent valuer; and

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS (continued)

Valuation of the Stonehold investment (continued)

Refer to note 19(a) to the consolidated financial statements.

The Key Audit Matter	How the matter was addressed in our audit
<p>The carrying amount of the Stonehold investment formed a significant part of the Group's assets. At 31 March 2019, the fair value of the Stonehold investment was HK\$1,510.1 million, which was determined by the directors of the Company with reference to a valuation report issued by an independent valuer. Valuation of the Stonehold investment is based on a combination of market data and valuation model which requires a considerable number of inputs.</p> <p>We identified the valuation of the Stonehold investment as a key audit matter because of the degree of complexity involved in valuing the Stonehold investment and the degree of judgement exercised by management in determining the inputs used in the valuation model.</p>	<ul style="list-style-type: none">considering the disclosures in the consolidated financial statements in respect of the fair value measurement of the Stonehold investment with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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

In connection with our audit of the consolidated financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated.

If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact. We have nothing to report in this regard.

INDEPENDENT AUDITOR'S REPORT

RESPONSIBILITIES OF THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

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

The directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

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

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.
- Obtain an understanding of internal control relevant to the audit in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Group's internal control.
- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.
- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditor's report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditor's report. However, future events or conditions may cause the Group to cease to continue as a going concern.
- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.
- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

INDEPENDENT AUDITOR'S REPORT

AUDITOR'S RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (continued)

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

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

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

The engagement partner on the audit resulting in this independent auditor's report is Ng Kwok Keung Raymond.

KPMG

Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

21 June 2019

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	Year ended 31 March	
		2019	2018
		HK\$'000	(Note) HK\$'000
Revenue from sales of goods		168,026	123,399
Cost of sales of goods		(93,359)	(91,218)
		74,667	32,181
Investment income		163,289	74,395
Total income from principal business activities, net of cost	4	237,956	106,576
Other net gains/(losses)	5	15	(163)
Administrative expenses		(66,843)	(73,836)
Taxes other than income tax	6	(15,080)	(8,205)
Exploration expenses, including dry holes	7	(2,029)	(1,343)
Profit before net finance (costs)/income and taxation		154,019	23,029
Finance income		34,934	24,337
Finance costs		(153,471)	(23,043)
Net finance (costs)/income	8(a)	(118,537)	1,294
Profit before taxation	8	35,482	24,323
Income tax	9	(8,103)	(9,830)
Profit for the year		27,379	14,493
Earnings per share	12		
Basic		HK\$0.437 cent	HK\$ 0.403 cent
Diluted		HK\$0.436 cent	HK\$ 0.294 cent

The notes on pages 115 to 182 form part of these financial statements.

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Year ended 31 March	
	2019	2018
	HK\$'000	(Note) HK\$'000
Profit for the year	27,379	14,493
Other comprehensive income for the year (after tax and reclassification adjustments)		
Items that will not be reclassified to profit or loss:		
Equity investment at FVOCI – net movement in fair value reserve (non-recycling)	(12,331)	(1,127)
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of financial statements of overseas subsidiaries	(33,277)	25,933
Other comprehensive income for the year	(45,608)	24,806
Total comprehensive income for the year	(18,229)	39,299

Note: The Group has initially applied HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated (see note 2(c)).

The notes on pages 115 to 182 form part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019 (Continued) (Expressed in Hong Kong dollars)

	Note	At 31 March 2019 HK\$'000	At 31 March 2018 (Note) HK\$'000
Non-current assets			
Property, plant and equipment	13	597,163	622,774
Construction in progress	14	18,193	12,509
Intangible assets	15	26,175	28,943
Lease prepayments	16	10,029	11,057
Interest in an associate	18	43,778	–
Financial assets at fair value through profit or loss	19	1,836,876	1,550,377
Financial assets at fair value through other comprehensive income	20	44,038	56,369
Other non-current assets	21	29,955	32,711
		2,606,207	2,314,740
Current assets			
Inventories	22	5,099	7,294
Trade receivables	23	46,298	44,820
Other receivables	23	31,588	82,404
Financial assets at fair value through profit or loss	19	18,043	26,515
Derivative financial instruments	24	–	1,285
Cash and cash equivalents	25	1,191,534	1,786,403
		1,292,562	1,948,721
Current liabilities			
Trade and other payables	26	226,514	284,730
Derivative financial instruments	24	–	2,273
		226,514	287,003
Net current assets			
		1,066,048	1,661,718
Total assets less current liabilities			
		3,672,255	3,976,458
Non-current liabilities			
Convertible bond	27	45,653	67,148
Convertible note	28	–	234,187
Deferred tax liabilities	29(a)	31,770	25,358
Provisions	30	51,419	56,592
Derivative financial instruments	24	–	3,614
		128,842	386,899
NET ASSETS			
		3,543,413	3,589,559

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 March 2019 (Expressed in Hong Kong dollars)

	Note	At 31 March 2019 HK\$'000	At 31 March 2018 (Note) HK\$'000
CAPITAL AND RESERVES			
Share capital	31(c)	65,959	60,944
Reserves	31(d)	3,477,454	3,528,615
TOTAL EQUITY		3,543,413	3,589,559

Note: The Group has initially applied HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated(see note 2(c)).

Approved and authorised for issue by the board of directors on 21 June 2019.

)	
Wang Jingbo)	
)	<i>Director</i>
)	
Lee Khay Kok)	

The notes on pages 115 to 182 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

Note	Share capital HK\$'000 (note 31(c))	Share premium HK\$'000 (note 31(d)(i))	Specific reserve HK\$'000 (note 31(d)(ii))	Exchange reserves HK\$'000 (note 31(d)(iii))	Fair value Reserve	Other reserve HK\$'000 (note 31(d)(v))	Accumulated losses HK\$'000	Total HK\$'000
					(non-recycling) HK\$'000 (note 31(d)(iv))			
Balance at 1 April 2017	43,646	2,768,895	5,609	8,861	-	(36,592)	(713,055)	2,077,364
Changes in equity for the year ended 31 March 2018:								
Profit for the year	-	-	-	-	-	-	14,493	14,493
Other comprehensive income	-	-	-	25,933	(1,127)	-	-	24,806
Total comprehensive income	-	-	-	25,933	(1,127)	-	14,493	39,299
Appropriation of safety production fund	-	-	982	-	-	-	(982)	-
Utilisation of safety production fund	-	-	(40)	-	-	-	40	-
Conversion of convertible bond	27(c)	3,448	45,088	-	-	(25,695)	-	22,841
Adjustment of unpaid preferred shares	31(c)	(1,000)	(65,960)	-	-	3,348	-	(63,612)
Modification of terms of convertible bond	27(b)	-	-	-	-	31,589	-	31,589
Issue of ordinary shares	31(c)	14,850	1,467,228	-	-	-	-	1,482,078
Balance at 31 March 2018 (Note)	60,944	4,215,251	6,551	34,794	(1,127)	(27,350)	(699,504)	3,589,559
Changes in equity for the year ended 31 March 2019:								
Profit for the year	-	-	-	-	-	-	27,379	27,379
Other comprehensive income	-	-	-	(33,277)	(12,331)	-	-	(45,608)
Total comprehensive income	-	-	-	(33,277)	(12,331)	-	27,379	(18,229)
Appropriation of safety production fund	-	-	1,050	-	-	-	(1,050)	-
Utilisation of safety production fund	-	-	(304)	-	-	-	304	-
Conversion of convertible bond	27(e)	5,481	74,477	-	-	(52,867)	-	27,091
Purchase of own shares	31(c)	(466)	(54,542)	-	-	-	-	(55,008)
Redemption of convertible note	28	-	-	-	-	(34,583)	34,583	-
Balance at 31 March 2019	65,959	4,235,186	7,297	1,517	(13,458)	(114,800)	(638,288)	3,543,413

Note: The Group has initially applied HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated (see note 2(c)).

The notes on pages 115 to 182 form part of these financial statements.

CONSOLIDATED CASH FLOW STATEMENT

For the year ended 31 March 2019 (Expressed in Hong Kong dollars)

	Note	2019 HK\$'000	2018 (Note) HK\$'000
Operating activities			
Cash generated from operations	25(b)	46,974	47,000
Net cash generated from operating activities		46,974	47,000
Investing activities			
Net cash inflow/(outflow) for the Stonehold investment		42,120	(1,386,593)
Payment for the purchase of property, plant and equipment		(106,918)	(103,350)
Proceeds from sales of property, plant and equipment		30	–
Payment for investment in an associate		(43,937)	–
Net cash outflow from other investments		(996,576)	(334,986)
Net cash inflow from investment deposits		–	175,451
Proceeds from interest generated from the Stonehold investment		63,505	–
Dividend received		1,938	–
Proceeds from sales of other investments		826,823	92,616
Net cash used in investing activities		(213,015)	(1,556,862)
Financing activities			
Proceeds from issuing ordinary shares	31(c)	–	1,485,000
Proceeds from issuing preferred shares		–	789,735
Proceeds from advances and borrowings	25(c)	–	79,789
Payment for redemption of convertible note	25(c)	(375,000)	–
Purchase of own shares	31(c)	(55,008)	–
Repayment of advances and borrowings	25(c)	–	(182,211)
Interest paid	25(c)	(1,262)	(1,886)
Net cash (used in)/generated from financing activities		(431,270)	2,170,427
Net (decrease)/increase in cash and cash equivalents		(597,311)	660,565
Cash and cash equivalents at the beginning of the reporting period	25(a)	1,786,403	1,134,521
Effect of foreign exchange rate changes		2,442	(8,683)
Cash and cash equivalents at the end of the reporting period	25(a)	1,191,534	1,786,403

Note: The Group has initially applied HKFRS 15 at 1 April 2018. Under the transition methods chosen, comparative information is not restated (see note 2(c)).

The notes on pages 115 to 182 form part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

1 CORPORATE INFORMATION

IDG Energy Investment Limited (formerly known as IDG Energy Investment Group Limited) (the “**Company**”) is an investment holding company, which 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 Unit 5507, 55/F., The Center, 99 Queen’s 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 9 July 2018, the name of the Company was changed from IDG Energy Investment Group Limited to IDG Energy Investment Limited with effect from 20 July 2018.

On 29 July 2016 (the “**Completion Date**”), the Company completed a reverse takeover transaction (the “Reverse Takeover Transaction”) which involved, among others, the acquisition by the Company of 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 People’s Republic of China (“PRC”).

During the year ended 31 March 2019, the principal activity of the Company is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consist of upstream oil and gas business, LNG liquefaction and exporting, LNG importing, processing and sales, and LNG logistics services, as well as related energy investment fund management.

Hongbo Mining, one of the Company’s wholly-owned subsidiaries, entered into an exploration and production cooperation contract (“**EPCC**”) with Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau) (陝西延長石油(集團)有限責任公司(延長油礦管理局), “**Yanchang**”) in July 2010. The EPCC gives Hongbo Mining 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**”) and shared between Hongbo Mining and Yanchang in the proportion of 80% and 20% respectively. Hongbo Mining commenced production in Block 212 in 2010. The EPCC was renewed in June 2018 and the expiry date of the EPCC is extended to 30 June 2020. Yanchang had obtained from the Ministry of Land and Resources of the People’s Republic of China a 15-year valid production permit for Unit 2, Unit 19 and other areas in Block 212 in May 2017. Besides, Block 212 and Block 378 are entitled to exploration permit which are renewable for a term of two years after expiration. The current exploration permit in respect of Block 212 expired on 5 March 2019 with the new exploration permit being applied and processed by the Ministry of Natural Resources of the People’s Republic of China, and the current exploration permit in respect of Block 378 will expire on 9 November 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES

(a) *Statement of compliance*

These financial statements have 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. These financial statements 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 these financial statements.

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

The financial information for the year ended 31 March 2019 comprises the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

- Financial assets at fair value through profit or loss (see note 2(f));
- Financial assets at fair value through other comprehensive income (see note 2(f));
- Derivative financial instruments (see note 2(g)).

The preparation of financial statements 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(c) *Changes in accounting policies*

The HKICPA has issued a number of new HKFRSs and amendments to HKFRSs that are first effective for the current accounting period of the Group. The Group has early adopted HKFRS 9, *Financial Instruments* in the annual financial report ended 31 March 2018. The development of HKFRS 15, *Revenue from contracts with customers* is relevant to the Group's financial statements.

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

HKFRS 15, *Revenue from contracts with customers*

HKFRS 15 establishes a comprehensive framework for recognising revenue and some costs from contracts with customers. HKFRS 15 replaces HKAS 18, *Revenue*, which covered revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specified the accounting for construction contracts.

The adoption of HKFRS 15 does not have any material impact on the financial position and the financial results of the Group.

(d) *Subsidiaries*

Subsidiaries are entities controlled by the Group. The Group controls an entity when it is exposed, or has rights, to variable returns from its involvement with the entity and has the ability to affect those returns through its power over the entity. When assessing whether the Group has power, only substantive rights (held by the Group and other parties) are considered.

An investment in a subsidiary is consolidated into the consolidated financial statements from the date that control commences until the date that control ceases. Intra-group balances, transactions and cash flows and any unrealised profits arising from intra-group transactions are eliminated in full in preparing the consolidated financial statements. Unrealised losses resulting from intra-group transactions are eliminated in the same way as unrealised gains but only to the extent that there is no evidence of impairment.

Changes in the Group's interests in a subsidiary that do not result in a loss of control are accounted for as equity transactions, whereby adjustments are made to the amounts of controlling and non-controlling interests within consolidated equity to reflect the change in relative interests, but no adjustments are made to goodwill and no gain or loss is recognised.

When the Group loses control of a subsidiary, it is accounted for as a disposal of the entire interest in that subsidiary, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former subsidiary at the date when control is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset or, when appropriate, the cost on initial recognition of an investment in an associate or joint venture.

In the Company's statement of financial position, an investment in a subsidiary is stated at cost less impairment losses (see note 2(k)(ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(e) Associates

An associate is an entity in which the Group or Company has significant influence, but not control or joint control, over its management, including participation in the financial and operating policy decisions.

An investment in an associate is accounted for in the consolidated financial statements under the equity method, unless it is classified as held for sale (or included in a disposal Group that is classified as held for sale). Under the equity method, the investment is initially recorded at cost, adjusted for any excess of the Group's share of the acquisition-date fair values of the investee's identifiable net assets over the cost of the investment (if any). The cost of the investment includes purchase price, other costs directly attributable to the acquisition of the investment, and any direct investment into the associate that forms part of the Group's equity investment. Thereafter, the investment is adjusted for the post acquisition change in the Group's share of the investee's net assets and any impairment loss relating to the investment (see notes 2(k)(ii)). Any acquisition date excess over cost, the Group's share of the post-acquisition, post-tax results of the investees and any impairment losses for the year are recognised in the consolidated statement of profit or loss, whereas the Group's share of the post-acquisition post-tax items of the investees' other comprehensive income is recognised in the consolidated statement of profit or loss and other comprehensive income.

When the Group's share of losses exceeds its interest in the associate, the Group's interest is reduced to nil and recognition of further losses is discontinued except to the extent that the Group has incurred legal or constructive obligations or made payments on behalf of the investee. For this purpose, the Group's interest is the carrying amount of the investment under the equity method together with any other long-term interests that in substance form part of the Group's net investment in the associate.

Unrealised profits and losses resulting from transactions between the Group and its associates are eliminated to the extent of the Group's interest in the investee, except where unrealised losses provide evidence of an impairment of the asset transferred, in which case they are recognised immediately in profit or loss.

In all other cases, when the Group ceases to have significant influence over an associate, it is accounted for as a disposal of the entire interest in that investee, with a resulting gain or loss being recognised in profit or loss. Any interest retained in that former investee at the date when significant influence is lost is recognised at fair value and this amount is regarded as the fair value on initial recognition of a financial asset (see note 2(f)).

In the company's statement of financial position, investments in associates are stated at cost less impairment losses (see note 2(k)), unless classified as held for sale (or included in a disposal group that is classified as held for sale).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) *Other investments in debt and equity securities*

The Group's policies for investments in debt and equity securities, other than investments in subsidiaries and associates are set out below.

Investments in debt and equity securities are recognised/derecognised on the date the Group commits to purchase/sell the investment. The investments are initially stated at fair value plus directly attributable transaction costs, except for those investments measured at fair value through profit or loss (FVTPL) for which transaction costs are recognised directly in profit or loss. For an explanation of how the Group determines fair value of financial instruments, see note 32(g). These investments are subsequently accounted for as follows, depending on their classification.

Investments other than equity investments

Non-equity investments held by the Group are classified into one of the following measurement categories:

- amortised cost, if the investment is held for the collection of contractual cash flows which represent solely payments of principal and interest. Interest income from the investment is calculated using the effective interest method.
- fair value through other comprehensive income (FVOCI) – recycling, if the contractual cash flows of the investment comprise solely payments of principal and interest and the investment is held within a business model whose objective is achieved by both the collection of contractual cash flows and sale. Changes in fair value are recognised in other comprehensive income, except for the recognition in profit or loss of expected credit losses, interest income (calculated using the effective interest method) and foreign exchange gains and losses. When the investment is derecognised, the amount accumulated in other comprehensive income is recycled from equity to profit or loss.
- fair value at profit or loss (FVTPL) if the investment does not meet the criteria for being measured at amortised cost or FVOCI (recycling). Changes in the fair value of the investment (including interest) are recognised in profit or loss.

Equity investments

An investment in equity securities is classified as FVTPL unless the equity investment is not held for trading purposes and on initial recognition of the investment the Group makes an election to designate the investment at FVOCI (non-recycling) such that subsequent changes in fair value are recognised in other comprehensive income. Such elections are made on an instrument-by-instrument basis, but may only be made if the investment meets the definition of equity from the issuer's perspective. Where such an election is made, the amount accumulated in other comprehensive income remains in the fair value reserve (non-recycling) until the investment is disposed of. At the time of disposal, the amount accumulated in the fair value reserve (non-recycling) is transferred to retained earnings. It is not recycled through profit or loss. Dividends from an investment in equity securities, irrespective of whether classified as at FVTPL or FVOCI, are recognised in profit or loss as investment income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(g) *Derivative financial instruments*

Derivative financial instruments are recognised initially at fair value. At the end of each reporting period the fair value is remeasured. The gain or loss on remeasurement to fair value is recognised immediately in profit or loss. Derivatives are carried as assets when the fair value is positive and as liabilities when the fair value is negative.

(h) *Property, plant and equipment*

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses (see note 2(k)(ii)).

The cost of self-constructed items of property, plant and equipment includes the cost of materials, direct labour, the initial estimate, where relevant, of the costs of dismantling and removing the items and restoring the site on which they are located, and an appropriate proportion of production overheads and borrowing costs (see note 2(y)).

Gains or losses arising from the retirement or disposal of an item of property, plant and equipment are determined as the difference between the net disposal proceeds and the carrying amount of the item and are recognised in profit or loss on the date of retirement or disposal.

Depreciation is calculated to write off the cost or valuation of items of property, plant and equipment, other than oil and gas properties, less their estimated residual value, if any, using the straight line method over their estimated useful lives as follows:

– Buildings and structures	40 years
– Machinery and equipment	14 years
– Motor vehicle	8 years
– Others	3 – 5 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of the item is allocated on a reasonable basis between the parts and each part is depreciated separately. Both the useful life of an asset and its residual value, if any, are reviewed annually.

Oil and gas properties for the relevant area are amortised on a unit-of-production basis. Unit-of-production rate is based on oil and gas reserves estimated to be recoverable from known reservoirs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(i) *Exploration and evaluation costs*

Geological and geophysical costs are charged to profit or loss as incurred.

Costs directly associated with an exploration well are initially capitalised as exploration and evaluation assets until the drilling of the well is complete and the results have been evaluated. These costs include employee remuneration, materials and fuel used, rig costs and payments made to contractors.

Costs directly associated with appraisal activity undertaken to determine the size, characteristics and commercial potential of a reservoir following the initial discovery of hydrocarbons, including the costs of appraisal wells where hydrocarbons were not found, are initially capitalised as exploration and evaluation assets.

If no potentially commercial hydrocarbons are discovered, the exploration and evaluation asset is written off through the profit or loss as a dry hole. If extractable hydrocarbons are found and, subject to further appraisal activity (e.g., the drilling of additional wells), it is probable that they can be commercially developed, the costs continue to be carried as exploration and evaluation assets while sufficient/continued progress is made in assessing the commerciality of the hydrocarbons.

Regular review is undertaken for each area to determine the appropriateness of continuing to carry forward accumulated capitalised exploration and evaluation expenditure. To the extent that capitalised exploration and evaluation expenditure is no longer expected to be recovered, it is charged to profit or loss.

No amortisation is charged during the exploration and evaluation phase.

When the technical feasibility and commercial viability of extracting natural resources become demonstrable, the relevant capitalised expenditure is first assessed for impairment and (if required) any impairment loss is recognised, then the remaining balance is transferred to property, plant and equipment — oil and gas properties.

(j) *Intangible assets*

Intangible assets that are acquired by the Group are stated at cost less accumulated amortisation (where the estimated useful life is finite) and impairment losses (see note 2(k)(ii)). Expenditure on internally generated goodwill and brands is recognised as an expense in the period in which it is incurred.

Amortisation of intangible assets with finite useful lives is charged to profit or loss. Cooperation right is amortised on a unit-of-production basis. Unit-of-production rate is based on oil and gas reserves estimated to be recoverable from known reservoirs.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets

(i) Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (ECLs) on the financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables);

Financial assets measured at fair value, including equity securities measured at FVTPL, equity securities designated at FVOCI (non-recycling) and derivative financial assets, are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- trade and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

Loss allowances for trade receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Significant increases in credit risk

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

Basis of calculation of interest income

Interest income recognised in accordance with note 2(w)(ii) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired, in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulty of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the debtor will enter bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; and
- the disappearance of an active market for a security because of financial difficulties of the issuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(i) Credit losses from financial instruments (continued)

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

(ii) Impairment of other non-current assets

Internal and external sources of information are reviewed at the end of each reporting period to identify indications that the following assets may be impaired or an impairment loss previously recognised no longer exists or may have decreased:

- property, plant and equipment;
- construction in progress;
- intangible assets;
- lease prepayments; and
- investment in subsidiaries and associates in the company's statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(k) Credit losses and impairment of assets (continued)

(ii) Impairment of other non-current assets (continued)

If any such indication exists, the asset's recoverable amount is estimated.

- Calculation of recoverable amount

The recoverable amount of an asset is the greater of its fair value less costs of disposal and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. Where an asset does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the smallest group of assets that generates cash inflows independently (i.e. a cash-generating unit).

- Recognition of impairment losses

An impairment loss is recognised in profit or loss if the carrying amount of an asset, or the cash-generating unit to which it belongs, exceeds its recoverable amount. Impairment losses recognised in respect of cash-generating units are allocated to reduce the carrying amount of the assets in the cash-generating unit (or group of units) on a pro rata basis, except that the carrying value of an asset will not be reduced below its individual fair value less costs of disposal (if measurable) or value in use (if determinable).

- Reversals of impairment losses

An impairment loss is reversed if there has been a favourable change in the estimates used to determine the recoverable amount.

A reversal of an impairment loss is limited to the asset's carrying amount that would have been determined had no impairment loss been recognised in prior years. Reversals of impairment losses are credited to profit or loss in the year in which the reversals are recognised.

(iii) Interim financial reporting and impairment

Under the Rules Governing the Listing of Securities on the Stock Exchange of Hong Kong Limited, the Group is required to prepare an interim financial report in compliance with HKAS 34, Interim financial reporting, in respect of the first six months of the financial year. At the end of the interim period, the Group applies the same impairment testing, recognition, and reversal criteria as it would at the end of the financial year (see note 2(k)(i) and (ii)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(l) Inventories

Inventories are carried at the lower of cost and net realisable value.

Cost is calculated using the weighted average cost formula and comprises all costs of purchase, costs of conversion and other costs incurred in bringing the inventories to their present location and condition.

Net realisable value is the estimated selling price in the ordinary course of business less the estimated costs of completion and the estimated costs necessary to make the sale.

When inventories are sold, the carrying amount of those inventories is recognised as an expense in the period in which the related revenue is recognised. The amount of any write-down of inventories to net realisable value and all losses of inventories are recognised as an expense in the period the write-down or loss occurs. The amount of any reversal of any write-down of inventories is recognised as a reduction in the amount of inventories recognised as an expense in the period in which the reversal occurs.

(m) Leased assets

An arrangement, comprising a transaction or a series of transactions, is or contains a lease if the Group determines that the arrangement conveys a right to use a specific asset or assets for an agreed period of time in return for a payment or a series of payments. Such a determination is made based on an evaluation of the substance of the arrangement and is regardless of whether the arrangement takes the legal form of a lease.

(i) Classification of assets leased to the Group

Assets that are held by the Group under leases which transfer to the Group substantially all the risks and rewards of ownership are classified as being held under finance leases. Leases which do not transfer substantially all the risks and rewards of ownership to the Group are classified as operating leases.

(ii) Operating lease charges

Where the Group has the use of assets held under operating leases, payments made under the leases are charged to profit or loss in equal instalments over the accounting periods covered by the lease term, except where an alternative basis is more representative of the pattern of benefits to be derived from the leased asset. Lease incentives received are recognised in profit or loss as an integral part of the aggregate net lease payments made. Contingent rentals are charged to profit or loss in the accounting period in which they are incurred.

Lease prepayments represent land use rights paid to the relevant government authorities. Land use rights are carried at cost less accumulated amortisation and impairment losses (see note 2(k)(ii)). The cost of lease prepayments is amortised on a straight line basis over the respective periods of the land use rights.

(n) Trade and other receivables

Trade and other receivables are initially recognised at fair value and thereafter stated at amortised cost using the effective interest method less loss allowances (see note 2(k)(i)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(o) *Cash and cash equivalents*

Cash and cash equivalents comprise cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition.

(p) *Trade and other payables*

Trade and other payables are initially recognised at fair value and subsequently stated at amortised cost unless the effect of discounting would be immaterial, in which case they are stated at cost.

(q) *Preference share capital*

Preference share capital is classified as equity if it is non-redeemable, or redeemable only at the Company's option, and any dividends are discretionary. Dividends on preference share capital classified as equity are recognised as distributions within equity.

(r) *Interest-bearing borrowings*

Interest-bearing borrowings are recognised initially at fair value less attributable transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortised cost with any difference between the amount initially recognised and redemption value being recognised in profit or loss over the period of the borrowings, together with any interest and fees payable, using the effective interest method.

(s) *Convertible note and bond*

Convertible note and bond that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the derivative component of the convertible note is measured at fair value and presented as part of derivative financial instruments (see note 2(g)) and the liability component of the convertible note and bond are measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the derivative component and liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the derivative, liability and equity components in proportion to the allocation of proceeds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(s) *Convertible note and bond* (continued)

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the note or bond is converted or redeemed.

If the note and bond are converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note or bond is redeemed, the capital reserve is released directly to retained profits.

(t) *Employee benefits*

(i) **Short-term employee benefits and contributions to defined contribution retirement plans**

Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirement plans and the cost of non-monetary benefits are accrued in the year in which the associated services are rendered by employees. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) **Termination benefits**

Termination benefits are recognised at the earlier of when the Group can no longer withdraw the offer of those benefits and when it recognises restructuring costs involving the payment of termination benefits.

(u) *Income tax*

Income tax for the year comprises current tax and movements in deferred tax assets and liabilities. Current tax and movements in deferred tax assets and liabilities are recognised in profit or loss except to the extent that they relate to items recognised in other comprehensive income or directly in equity, in which case the relevant amounts of tax are recognised in other comprehensive income or directly in equity, respectively.

Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities arise from deductible and taxable temporary differences respectively, being the differences between the carrying amounts of assets and liabilities for financial reporting purposes and their tax bases. Deferred tax assets also arise from unused tax losses and unused tax credits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) *Income tax* (continued)

Apart from certain limited exceptions, all deferred tax liabilities, and all deferred tax assets to the extent that it is probable that future taxable profits will be available against which the asset can be utilised, are recognised. Future taxable profits that may support the recognition of deferred tax assets arising from deductible temporary differences include those that will arise from the reversal of existing taxable temporary differences, provided those differences relate to the same taxation authority and the same taxable entity, and are expected to reverse either in the same period as the expected reversal of the deductible temporary difference or in periods into which a tax loss arising from the deferred tax asset can be carried back or forward. The same criteria are adopted when determining whether existing taxable temporary differences support the recognition of deferred tax assets arising from unused tax losses and credits, that is, those differences are taken into account if they relate to the same taxation authority and the same taxable entity, and are expected to reverse in a period, or periods, in which the tax loss or credit can be utilised.

The limited exceptions to recognition of deferred tax assets and liabilities are, the initial recognition of assets or liabilities that affect neither accounting nor taxable profit and temporary differences relating to investments in subsidiaries to the extent that, in the case of taxable differences, the Group controls the timing of the reversal and it is probable that the differences will not reverse in the foreseeable future, or in the case of deductible differences, unless it is probable that they will reverse in the future.

The amount of deferred tax recognised is measured based on the expected manner of realisation or settlement of the carrying amount of the assets and liabilities, using tax rates enacted or substantively enacted at the end of the reporting period. Deferred tax assets and liabilities are not discounted.

The carrying amount of a deferred tax asset is reviewed at the end of each reporting period and is reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow the related tax benefit to be utilised. Any such reduction is reversed to the extent that it becomes probable that sufficient taxable profits will be available.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(u) *Income tax* (continued)

Current tax balances and deferred tax balances, and movements therein, are presented separately from each other and are not offset. Current tax assets are offset against current tax liabilities, and deferred tax assets against deferred tax liabilities, if the Company or the Group has the legally enforceable right to set off current tax assets against current tax liabilities and the following additional conditions are met:

- in the case of current tax assets and liabilities, the Company or the Group intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously; or
- in the case of deferred tax assets and liabilities, if they relate to income taxes levied by the same taxation authority on either:
 - the same taxable entity; or
 - different taxable entities, which, in each future period in which significant amounts of deferred tax liabilities or assets are expected to be settled or recovered, intend to realise the current tax assets and settle the current tax liabilities on a net basis or realise and settle simultaneously.

(v) *Provisions and contingent liabilities*

Provisions are recognised for liabilities of uncertain timing or amount when the Group has a legal or constructive obligation arising as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation and a reliable estimate can be made. Where the time value of money is material, provisions are stated at the present value of the expenditure expected to settle the obligation.

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

Provisions for future dismantlement costs are initially recognised based on the present value of the future costs expected to be incurred in respect of the Group's expected dismantlement and abandonment costs at the end of related oil and gas development and production activities. Any subsequent change in the present value of the estimated costs, other than the change due to passage of time which is regarded as interest cost, is reflected as an adjustment to the provision and the oil and gas properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(w) Revenue recognition

Income is classified by the Group as revenue when it arises from the sale of goods in the ordinary course of the Group's business.

Revenue is recognised when control over a product is transferred to the customer, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sale of goods

Revenue is recognised when the customer takes possession of and accepts the goods which was taken to be the point in time when the customer obtain control of the goods.

In the comparative period, revenue from sales of goods was recognised when the goods were shipped out of the gathering station, which was taken to be the point in time when the customer had accepted the goods and the related risks and rewards of ownership.

(ii) Interest income

Interest income is recognised as it accrues under the effective interest method using the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to the gross carrying amount of the financial asset. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost (i.e. gross carrying amount net of loss allowance) of the asset (see note 2(k)(i)).

(iii) Dividends

- Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.
- Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(x) Translation of foreign currencies

Foreign currency transactions during the year are translated at the foreign exchange rates ruling at the transaction dates. Monetary assets and liabilities denominated in foreign currencies are translated at the foreign exchange rates ruling at the end of the reporting period. Exchange gains and losses are recognised in profit or loss.

Non-monetary assets and liabilities that are measured in terms of historical cost in a foreign currency are translated using the foreign exchange rates ruling at the transaction dates. Non-monetary assets and liabilities denominated in foreign currencies that are stated at fair value are translated using the foreign exchange rates ruling at the dates the fair value was measured.

The results of foreign operations are translated into Hong Kong dollars at the exchange rates approximating the foreign exchange rates ruling at the dates of the transactions. Statement of financial position items, are translated into Hong Kong dollars at the closing foreign exchange rates at the end of the reporting period. The resulting exchange differences are recognised in other comprehensive income and accumulated separately in equity in the exchange reserve.

On disposal of a foreign operation, the cumulative amount of the exchange differences relating to that foreign operation is reclassified from equity to profit or loss when the profit or loss on disposal is recognised.

(y) Borrowing costs

Borrowing costs that are directly attributable to the acquisition, construction or production of an asset which necessarily takes a substantial period of time to get ready for its intended use or sale are capitalised as part of the cost of that asset. Other borrowing costs are expensed in the period in which they are incurred.

The capitalisation of borrowing costs as part of the cost of a qualifying asset commences when expenditure for the asset is being incurred, borrowing costs are being incurred and activities that are necessary to prepare the asset for its intended use or sale are in progress. Capitalisation of borrowing costs is suspended or ceases when substantially all the activities necessary to prepare the qualifying asset for its intended use or sale are interrupted or complete.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES (continued)

(z) *Related parties*

- (a) A person, or a close member of that person's family, is related to the Group if that person:
 - (i) has control or joint control over the Group;
 - (ii) has significant influence over the Group; or
 - (iii) is a member of the key management personnel of the Group or the Group's parent.

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

2 SIGNIFICANT ACCOUNTING POLICIES *(continued)*

(aa) Segment reporting

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

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

The principal activity of the Company is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consist of upstream oil and gas and other related businesses. The external customer and non-current assets (excluded deferred tax assets, financial instruments and interest in an associate) are located in the PRC, which are mainly held by Hongbo Mining.

The most senior executive management regularly review its financial statements as a whole to assess the performance and make resource allocation decisions. Accordingly, no segment information is presented.

3 ACCOUNTING JUDGEMENT AND ESTIMATES

Key sources of estimation uncertainty are as follow:

(a) Oil and gas properties and reserves

The accounting for the oil and gas exploration and production activities is subject to accounting rules that are unique to the oil and gas industry. Engineering estimates of the oil and gas reserves are inherently imprecise and represent only approximate amounts because of the subjective judgements involved in developing such information. There are authoritative guidelines regarding the engineering criteria that have to be met before estimated oil and gas reserves can be designated as "proved" or "probable".

Proved and probable reserves estimates are updated at least annually and take into account recent production and technical information about each field. In addition, as prices and cost levels change from year to year, the estimate of proved and probable reserves also changes. This change is considered a change in estimate for accounting purposes and is reflected on a prospective basis in relation to depreciation rates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

3 ACCOUNTING JUDGEMENT AND ESTIMATES (continued)

(a) *Oil and gas properties and reserves* (continued)

Future dismantlement costs for oil and gas properties are estimated with reference to engineering estimates after taking into consideration the anticipated method of dismantlement required in accordance with industry practices in similar geographic area, including estimation of economic life of oil and gas properties, technology and price level. The present values of these estimated future dismantlement costs are capitalised as oil and gas properties with equivalent amounts recognised as provisions for dismantlement costs.

Despite the inherent imprecision in these engineering estimates, these estimates are used in determining depreciation expense, impairment loss and future dismantlement costs. Depreciation rates are determined based on estimated proved developed reserve quantities (the denominator) and capitalised costs of producing properties (the numerator). Producing properties' capitalised costs are amortised based on the units of oil or gas produced.

(b) *Impairment losses of non-financial assets*

If circumstances indicate that the carrying amount of a non-financial asset may not be recoverable, the asset may be considered "impaired", and an impairment loss may be recognised. The carrying amounts of non-financial assets are reviewed periodically in order to assess whether the recoverable amounts have declined below the carrying amounts. These assets are tested for impairment whenever events or changes in circumstances indicate that their recorded carrying amounts may not be recoverable. When such a decline has occurred, the carrying amount is reduced to recoverable amount. The recoverable amount is the greater of the fair value less costs to sell and the value in use. It is difficult to precisely estimate selling price because quoted market prices for these assets or cash-generating units are not readily available. In determining the value in use, expected cash flows generated by the asset or the cash-generating unit are discounted to their present value, which requires significant judgement relating to level of sale volume, selling price and amount of operating costs. Management uses all readily available information in determining an amount that is a reasonable approximation of recoverable amount, including estimates based on reasonable and supportable assumptions and projections of sale volume, selling price and amount of operating costs.

(c) *Depreciation*

Property, plant and equipment, other than oil and gas properties, are depreciated on a straight line basis over the estimated useful lives of the assets, after taking into account the estimated residual values, if any. The Group reviews the estimated useful lives and the residual values of the assets regularly in order to determine the amount of depreciation charge to be recorded during any reporting period. The determination of the useful lives and the residual values are based on the historical experience with similar assets and taking into account anticipated technological changes. The depreciation charge for future periods is adjusted if there are significant changes from previous estimates.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

4 TOTAL INCOME FROM PRINCIPAL BUSINESS ACTIVITIES, NET OF COST

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
– sales of crude oil recognised at point in time (note (a))	168,026	123,399
Cost of sales of crude oil	(93,359)	(91,218)
	74,667	32,181
Investment income (note (b))	163,289	74,395
Total income from principal business activities, net of cost	237,956	106,576

Notes:

(a) Revenue from sales of crude oil is generated by Hongbo Mining, which is a subsidiary of the Company and engaged in exploration, development, production and sale of crude oil in the PRC. The amount represents the sales value of crude oil supplied to the customers, net of value added tax. There is only one major customer with whom transactions have exceeded 10% of the revenue from sales of crude oil.

The Group has initially applied HKFRS 15 using the cumulative effect method. Under this method, the comparative information is not restated and was prepared in accordance with HKAS 18 (see note 2(c)).

(b) Investment income

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Stonehold investment (note (i))	184,361	60,942
JOVO investment (note (i))	9,002	12,702
GNL Quebec investment (note (i))	6,102	7,449
Trading securities listed in the U.S. (note (i))	(2,762)	4,580
LNGL investment (note (i))	(25,937)	–
Dividend income (note (ii))	4,928	–
Net realised and unrealised losses on derivative financial instruments (note (iii))	(11,122)	(11,278)
Share of losses of an associate (note (iv))	(829)	–
Others	(454)	–
	163,289	74,395

Notes:

(i) These amounts represent fair value changes on the Stonehold investment, JOVO investment, GNL Quebec investment, trading securities listed in the U.S. and LNGL investment during the year ended 31 March 2019. Such assets are measured at FVTPL (see note 19), any interest income arising from such assets is included in fair value changes.

(ii) The amount represents the dividend income from JOVO investment and equity investment designated as FVOCI.

(iii) The amount represents net changes in the fair value of crude oil price option contract and crude oil price swap contracts held for risk management purpose. The derivative financial instruments are measured at FVTPL (see note 24).

(iv) The amount represents share of the associate's profit or loss under equity method (see note 18).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

5 OTHER NET GAINS/(LOSSES)

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Net gains/(losses) on disposal of property, plant and equipment	15	(163)

6 TAXES OTHER THAN INCOME TAX

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Resources tax	10,082	7,404
Petroleum special profit taxation	3,027	–
City construction tax	793	493
Education surcharge	476	296
Water resources tax	702	12
	15,080	8,205

7 EXPLORATION EXPENSES, INCLUDING DRY HOLES

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Staff cost	2,029	1,343

Exploration expenses, including dry holes were related to the exploration activities conducted by Hongbo Mining.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 PROFIT BEFORE TAXATION

Profit before taxation is arrived at after charging/(crediting):

(a) Net finance (costs)/income

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Interest income	31,347	4,306
Net gain on bank financing products	1,494	446
Changes in fair value on the derivative component of convertible note (note 28)	2,093	1,110
Gain on modification of terms of convertible bond	–	131
Interest on bank and other borrowings	–	(1,886)
Interest on convertible bond and convertible note (note 27 and 28)	(17,786)	(18,932)
Redemption of convertible note (note 28)	(131,550)	–
Accretion expenses (note 30)	(2,425)	(2,092)
Foreign exchange (loss)/gain, net	(1,660)	18,344
Others	(50)	(133)
	(118,537)	1,294

(b) Staff costs

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Salaries, wages and other benefits	42,710	31,611
Contributions to defined contribution retirement plan	1,639	1,392
	44,349	33,003

Pursuant to the relevant labour rules and regulations in the PRC, the Company and its subsidiaries participate in defined contribution retirement scheme (the "Scheme") organised by the relevant local government authority for their employees. The Company and its subsidiaries are required to make contributions to the Scheme. The local government authority is responsible for the entire pension obligations payable to retired employees. The Company and its subsidiaries have no other material obligation to make payments in respect of pension benefits associated with this scheme other than the annual contribution described above.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

8 PROFIT BEFORE TAXATION (continued)

(c) Other items

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Amortisation		
– intangible assets	860	973
– lease prepayments	300	302
– other non-current assets	3,261	3,201
Depreciation		
– property, plant and equipment	47,436	52,039
Operating leases charges: minimum lease payments		
– buildings	1,219	1,952
Auditors' remuneration		
– audit services	3,132	3,300
– other services	–	801
Cost of inventories* (note 22(b))	93,359	91,218

Cost of inventories includes HK\$59,103,000 (2018: HK\$62,145,000) relating to staff costs, depreciation and amortisation charges, which amount is also included in the respective total amounts disclosed separately above or in note 8(b) for each of these types of expenses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

9 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	
	2019	2018
	HK\$'000	HK\$'000
Deferred tax		
Origination and reversal of temporary differences	8,103	9,830

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

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Profit before taxation	35,482	24,323
Notional tax on profit before taxation, calculated at the rates applicable to profits in the countries concerned	2,297	1,818
Effect of non-taxable income	(3,098)	(2,449)
Effect of non-deductible expenses	7,610	7,233
Effect of unrecognised tax losses	8,588	5,182
Use of unrecognised tax losses	(7,294)	(1,954)
Actual tax expense	8,103	9,830

Pursuant to the rules and regulations of Bermuda and the British Virgin Islands (the "BVI"), the Company and its subsidiaries are 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 Company and its subsidiaries do not have any estimated assessable income arising in Hong Kong or the PRC for both the current and prior year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIRECTORS' EMOLUMENTS

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

	Year ended 31 March 2019				2019 Total HK\$' 000
	Directors' fees HK\$' 000	Salaries, allowances and benefits in kind HK\$' 000	Discretionary Bonuses HK\$' 000	Retirement scheme contributions HK\$' 000	
Executive directors					
Wang Jingbo	–	1,899	–	50	1,949
Lee Khay Kok	–	1,505	200	–	1,705
Non-executive directors					
Lin Dongliang	–	–	–	–	–
Shong Hugo	–	–	–	–	–
Independent non-executive directors					
Shi Cen	300	–	–	–	300
Chau Shing Yim	300	–	–	–	300
Chen Zhiwu (resigned on 19 October 2018)	165	–	–	–	165
GE Aiji (appointed on 19 October 2018)	135	–	–	–	135
Total	900	3,404	200	50	4,554

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

10 DIRECTORS' EMOLUMENTS (continued)

	Year ended 31 March 2018				2018 Total HK\$'000
	Directors' fees HK\$'000	Salaries, allowances and benefits in kind HK\$'000	Discretionary Bonuses HK\$'000	Retirement scheme contributions HK\$'000	
Executive directors					
Wang Jingbo	–	1,361	252	18	1,631
Lee Khay Kok	–	1,237	200	–	1,437
Non-executive directors					
Lin Dongliang	–	–	–	–	–
Shong Hugo	–	–	–	–	–
Independent non-executive directors					
Shi Cen	300	–	–	–	300
Chau Shing Yim	300	–	–	–	300
Chen Zhiwu	300	–	–	–	300
Total	900	2,598	452	18	3,968

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

11 INDIVIDUALS WITH HIGHEST EMOLUMENTS

Of the five individuals with the highest emoluments during the year ended 31 March 2019, two (2018: two) are directors whose emoluments during their appointment as a director of the Company are set out in note 10 above. The aggregate of the emoluments of the five highest paid individuals are as follows:

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Salaries and other emoluments	6,516	5,950
Discretionary bonuses	2,362	1,454
Retirement scheme contributions	242	60
	9,120	7,464

The emoluments of the 5 (2018: 5) individuals with the highest emoluments are within the following bands:

HK\$	2019	2018
	Number of individuals	Number of individuals
Nil – 1,000,000	–	–
1,000,001 – 2,000,000	4	5
2,000,001 – 3,000,000	1	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 EARNINGS PER SHARE

(a) Basic earnings per share

The calculation of basic earnings per share is based on the profit attributable to ordinary equity shareholders of the Company of HK\$27,379,000 (2018: HK\$14,493,000) and the weighted average of 6,268,569,000 ordinary shares (2018: 3,598,754,000 shares) in issue during the year, calculated as follows:

Weighted average number of ordinary shares

	Year ended 31 March	
	2019 '000	2018 '000
Issued ordinary shares at 1 April	6,094,404	1,616,741
Effect of conversion of preferred shares (note 31(c)(iii))	–	1,360,976
Effect of conversion of convertible bond (note 27(c) and (e))	202,763	177,572
Effect of issue of ordinary shares (note 31(c)(iv))	–	443,465
Effect of shares repurchased (note 31(c)(v))	(28,598)	–
Weighted average number of ordinary shares at 31 March	6,268,569	3,598,754

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

12 EARNINGS PER SHARE (continued)

(b) Diluted earnings per share

The calculation of diluted earnings per share for the year ended 31 March 2019 is based on the profit attributable to ordinary equity shareholders of the Company of HK\$32,748,000 (2018: HK\$14,493,000) and the weighted average number of ordinary shares of 7,506,766,000 (2018: 4,935,277,000 shares) shares, calculated as follows:

(i) Profit attributable to ordinary equity shareholders of the Company (diluted)

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
Profit attributable to ordinary equity shareholders	27,379	14,493
After tax effect of effective interest on the liability component of convertible bond	5,369	–
Profit attributable to ordinary equity shareholders (diluted)	32,748	14,493

(ii) Weighted average number of ordinary shares (diluted)

	Year ended 31 March	
	2019	2018
	'000	'000
Weighted average number of ordinary shares at 31 March	6,268,569	3,598,754
Effect of deemed conversion of the Company's preferred shares for nil consideration (note 31(c))	–	1,336,523
Effect of conversion of ordinary shares for convertible bond (note 27)	1,238,197	–
Weighted average number of ordinary shares (diluted) at 31 March	7,506,766	4,935,277

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

13 PROPERTY, PLANT AND EQUIPMENT

	Buildings and structures HK\$' 000	Machinery and equipment HK\$' 000	Motor vehicle HK\$' 000	Oil and gas properties HK\$' 000	Others HK\$' 000	Total HK\$' 000
Cost:						
At 1 April 2017	106,065	68,680	11,000	711,899	22,587	920,231
Additions	–	7,050	–	6,799	55	13,904
Reassessment of provision (note 30)	–	–	–	7,807	–	7,807
Transferred from construction in progress	–	–	–	81,576	–	81,576
Disposals	–	–	(626)	–	(643)	(1,269)
Exchange adjustments	11,455	7,832	1,151	82,555	2,406	105,399
At 31 March 2018	117,520	83,562	11,525	890,636	24,405	1,127,648
Additions	–	3,635	217	4,137	207	8,196
Reassessment of provision (note 30)	–	–	–	(8,009)	–	(8,009)
Transferred from construction in progress	–	–	–	63,059	–	63,059
Disposals	–	–	(233)	–	(62)	(295)
Exchange adjustments	(7,745)	(5,835)	(760)	(58,851)	(1,609)	(74,800)
At 31 March 2019	109,775	81,362	10,749	890,972	22,941	1,115,799
Accumulated depreciation:						
At 1 April 2017	(13,888)	(31,049)	(6,615)	(339,218)	(16,220)	(406,990)
Charge for the year	(2,822)	(5,418)	(1,013)	(40,359)	(2,427)	(52,039)
Written back on disposals	–	–	574	–	532	1,106
Exchange adjustments	(1,665)	(3,673)	(735)	(39,015)	(1,863)	(46,951)
At 31 March 2018	(18,375)	(40,140)	(7,789)	(418,592)	(19,978)	(504,874)
Charge for the year	(2,798)	(5,574)	(981)	(36,280)	(1,803)	(47,436)
Written back on disposals	–	–	221	–	59	280
Exchange adjustments	1,218	2,660	515	27,680	1,321	33,394
At 31 March 2019	(19,955)	(43,054)	(8,034)	(427,192)	(20,401)	(518,636)
Net book value:						
At 31 March 2018	99,145	43,422	3,736	472,044	4,427	622,774
At 31 March 2019	89,820	38,308	2,715	463,780	2,540	597,163

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

14 CONSTRUCTION IN PROGRESS

	Cost of wells drilled and other capital expenditure HK\$' 000
At 1 April 2017	4,792
Additions	88,375
Transferred to property, plant and equipment	(81,576)
Exchange adjustments	918
At 31 March 2018	12,509
Additions	69,584
Transferred to property, plant and equipment	(63,059)
Exchange adjustments	(841)
At 31 March 2019	18,193

15 INTANGIBLE ASSETS

	Cooperation right HK\$' 000
Cost:	
At 1 April 2017	33,792
Exchange adjustments	3,649
At 31 March 2018	37,441
Exchange adjustments	(2,467)
At 31 March 2019	34,974
Accumulated amortisation:	
At 1 April 2017	(6,741)
Charge for the year	(973)
Exchange adjustments	(784)
At 31 March 2018	(8,498)
Charge for the year	(860)
Exchange adjustments	559
At 31 March 2019	(8,799)
Net book value:	
At 31 March 2018	28,943
At 31 March 2019	26,175

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

16 LEASE PREPAYMENTS

Lease prepayments comprise interests in leasehold land held for own use under operating leases located in the PRC as follows:

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Land use rights held under medium-term leases	10,029	11,057

17 INVESTMENTS IN SUBSIDIARIES

The following list contains only the particulars of subsidiaries which principally affected the results, assets or liabilities of the Group. The class of shares held is ordinary unless otherwise stated.

Name of company	Place of incorporation and business	Particulars of issued registered and paid up capital	Effective percentage of equity attributable to the Company		Principal activity
			Direct	Indirect	
Xilin Gol League Hongbo Mining Development Company Limited ("Hongbo Mining")	PRC	RMB434,920,000	–	100%	Exploration, development, production and sale of crude oil
Think Excel Investments Limited	the BVI	United States dollars ("US\$") 1	100%	–	Investment holding
Valuevale Investment Limited	Hong Kong ("HK")	HK\$100,000	100%	–	Investment holding
Golden Libra Investment Limited	HK	HK\$100,000	100%	–	Investment holding
Beijing Valuevale Technology Limited	PRC	HK\$694,363,214 (Note)	89.92%	10.08%	Technology development and consulting
Beijing Value Top Technology Limited	PRC	RMB596,076,388	–	100%	Technology development and consulting

Note: The registered capital of this entity is HK\$779,363,214. As of 31 March 2019, the registered capital of HK\$694,363,214 has been fully paid up.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

18 INTEREST IN AN ASSOCIATE

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Interest in an associate	43,778	–

On 25 September 2018, Valuevale Investment Limited (“Valuevale”), a wholly-owned subsidiary of the Company, entered into the agreement with JUSDA Supply Chain Management International CO., LTD. (準時達國際供應鏈管理有限公司) (“JUSDA”) (the “Agreement”) and the management team (the “Management”), in relation to the formation of JUSDA Energy Technology (Shanghai) Co Ltd. (準時達能源科技(上海)有限公司), which is engaged in liquefied natural gas logistics services. Pursuant to the Agreement, Valuevale agreed to contribute RMB78 million (in equivalent of HK\$91 million) to the investee. At 31 March 2019, the Valuevale has completed its capital injection of the first batch with amount of HK\$43.9 million.

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Non-current assets		
Stonehold investment (note (a))	1,510,062	1,389,206
JOVO investment (note (b))	138,154	129,152
GNL Quebec investment (note (c))	45,921	32,019
LNGL investment (note (d))	142,739	–
	1,836,876	1,550,377
Current assets		
Trading securities listed in the US	8,689	11,451
Bank financing products	9,354	15,064
	18,043	26,515

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

19 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

(continued)

Notes:

- (a) On 14 August 2017 (local time in Houston, Texas, the U.S.), the Company and Think Excel Investments Limited (“Think Excel”), a wholly-owned subsidiary of the Company, entered into a credit agreement (the “Credit Agreement”) with Stonehold Energy Corporation (“Stonehold”), pursuant to which, the Company and Think Excel have conditionally agreed to grant a Term Loan to Stonehold (the “Stonehold investment”) for the purpose of financing the acquisition of certain oil and gas related assets (the “Target Assets”) and the subsequent operations of such assets by Stonehold. On the same date Stonehold entered into an acquisition agreement (the “Acquisition Agreement”) with Stonegate Production Company, LLC (the “Stonegate”), pursuant to which, Stonegate has conditionally agreed to sell and Stonehold has conditionally agreed to purchase the Target Assets. All Target Assets are oil and gas assets owned by Stonegate as a non-operator.

On 26 September 2017 (local time in Houston, Texas, the U.S.), the initial payment of the Term Loan with an amount of US\$165.0 million (approximately HK\$1,291.1 million) under the Credit Agreement has been released to Stonehold and the acquisition of the Target Assets by Stonehold from Stonegate has also been consummated in accordance with the terms of the Acquisition Agreement, and a subsequent payment of the Term Loan with an amount of US\$5.0 million (approximately HK\$39.0 million) has been released to Stonehold on 22 November 2017. Under the Credit agreement, the Company and Think Excel are entitled to interest on the principal amount of the Stonehold investment at a rate of 8% per annum (after the making of or the allocation of any applicable withholding tax). The Company and Think Excel are also entitled to additional interest at an amount equal to 92.5% of the remainder cash proceeds received or recovered by Stonehold in respect of any disposal of the Target Assets after deducting outstanding principals and interests pursuant to the Credit Agreement, as well as after deducting any fees, costs and expenses reasonably incurred by Stonehold with respect to such disposal, if applicable. The maturity date of the Stonehold investment is 10 years after the initial payment of the Stonehold investment.

Stonehold holds the unconventional shale oil and gas assets in the Eagle Ford core region in the U.S.

- (b) On 14 July 2017, Valuevale entered into a subscription agreement with Jiangxi Jovo Energy Company Limited (“JOVO”), pursuant to which Valuevale has conditionally agreed to subscribe for, and JOVO has conditionally agreed to allot and issue, shares of JOVO at a consideration of RMB100 million (equivalent to approximately HK\$115.2 million). The completion of the subscription took place on 28 July 2017.

JOVO is a limited liability company incorporated in the PRC which engages in clean energy businesses, including importing, processing and sale of LNG and LPG.

- (c) On 30 November 2017, Golden Libra Investment Limited (“Golden Libra”), a wholly-owned subsidiary of the Company, entered into an agreement of purchase and sale with an investment fund for purchasing its interests in LNG Quebec Limited Partnership (the “GNL Quebec”) at the purchase price of US\$3.15 million (equivalent to approximately HK\$24,633,000). The completion of the acquisition took place on 7 February 2018.

On 26 July 2018, Golden Libra invested another US\$1 million (equivalent to approximately HK\$7,800,000) in GNL Quebec to support ongoing development. On 30 December 2018, Golden Libra has transferred GNL Quebec investment to Valuevale.

GNL Quebec, through its wholly-owned subsidiary GNL Quebec Inc., is developing a state-of-the-art and low-carbon-emission LNG exporting terminal with a maximum nameplate liquefaction capacity of up to eleven million tons per annum.

- (d) On 2 June 2018, the Company through its subsidiary, entered into a subscription agreement with Liquefied Natural Gas Limited (“LNG”), which is listed in Australia, pursuant to which the Company has agreed to subscribe for, and LNG has agreed to issue, 56,444,500 ordinary shares of LNG at an aggregate subscription price of A\$28.2 million (equivalent to approximately HK\$166.8 million). Upon completion of the subscription, the Company held 9.9% of the equity interests in LNG and became the second largest shareholder of LNG. The completion of the subscription took place on 13 June 2018.

LNG owns and operates a fully permitted greenfield LNG export terminal, the Magnolia LNG project, in Louisiana of the U.S., with planned capacity of 8 mtpa or greater and recognized as one of the most viable LNG projects in the U.S.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

20 FINANCIAL ASSETS AT FAIR VALUE THROUGH OTHER COMPREHENSIVE INCOME

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Equity investment designated as FVOCI (non-recycling) – listed in HK	44,038	56,369

The equity investment designated as FVOCI is shares of a company listed in Hong Kong. Golden Libra designated the investment at FVOCI (non-recycling), as the investment is held for strategic purposes. During this current accounting period, dividends amounting to HK\$1,937,676 have been received (2018: Nil) (see note 4(b)).

21 OTHER NON-CURRENT ASSETS

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Prepayments for construction in progress	7,368	6,523
Performance deposit due from Yanchang	6,360	6,809
Expenditures on public facilities	16,227	19,379
	29,955	32,711

22 INVENTORIES

(a) Inventories in the consolidated statement of financial position comprise:

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Spare parts and consumables	4,518	5,303
Finished goods	581	1,991
	5,099	7,294

(b) The analysis of the amount of inventories recognised as an expense and included in profit or loss is as follows:

	Year ended 31 March	
	2019 HK\$'000	2018 HK\$'000
Carrying amount of inventories sold (note 8(c))	93,359	91,218

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

23 TRADE AND OTHER RECEIVABLES

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Trade receivables	46,298	44,820
Other receivables	10,900	50,510
Prepayment to suppliers	17,698	16,202
Dividends receivable from financial instruments measured at FVTPL	2,990	–
Deposit for derivative financial instruments investment	–	15,692
	77,886	127,224

All of the trade and other receivables are expected to be recovered or recognised as expense within one year.

(a) Aging 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 2019 HK\$'000	At 31 March 2018 HK\$'000
Within 1 month	24,344	18,647
1 to 6 months	21,954	26,173
	46,298	44,820

(b) ECLs

As at 31 March 2018 and 2019, trade receivables were related to an independent customer that was without any historical default record with Hongbo Mining. Based on past experience, current condition and management's view of economic condition over the expected lives of the trade receivables, management believes that there is not any possible default events over the expected lives of the trade receivables, so no loss allowance is necessary in respect of these balances.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

24 DERIVATIVE FINANCIAL INSTRUMENTS

	At 31 March 2019		At 31 March 2018	
	Assets	Liabilities	Assets	Liabilities
	HK\$' 000	HK\$' 000	HK\$' 000	HK\$' 000
Non-current liabilities				
– Crude oil price swap	–	–	–	3,614
Current assets and liabilities				
– Crude oil price put option	–	–	1,285	–
– Crude oil price swap	–	–	–	2,273
	–	–	1,285	5,887

At 31 March 2018, the Company and Valuevale held one crude oil price put option contract and two crude oil price swap contracts in place to manage certain exposure to the changes in crude oil price. All option and swap contracts have been settled during the year ended 31 March 2019.

The net changes in the fair value the above derivative contracts which did not meet the criteria for hedge accounting were debited to the consolidated statements of profit or loss (see note 4).

25 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(a) Cash and cash equivalents comprise:

	At 31 March 2019 HK\$' 000	At 31 March 2018 HK\$' 000
Deposit with banks	1,002,259	1,131,847
Cash at bank and on hand	189,275	654,556
	1,191,534	1,786,403

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(b) Reconciliation of profit before taxation to cash generated from operations:

	Note	2019 HK\$'000	2018 HK\$'000
Profit before taxation		35,482	24,323
Adjustments for:			
Depreciation	8(c)	47,436	52,039
Amortisation of intangible assets	8(c)	860	973
Amortisation of lease prepayments	8(c)	300	302
Amortisation of other non-current assets	8(c)	3,261	3,201
Net financial costs		149,884	3,012
Expenses incurred in relation to a terminated acquisition		–	6,433
Expenses incurred in relation to the Stonehold investment		–	15,950
Net realised and unrealised gains on financial assets at FVTPL and derivative financial instruments	4	(164,118)	(74,395)
Share of losses of an associate	4	829	–
Net (gain)/losses on disposal of property, plant and equipment	5	(15)	163
Changes in working capital:			
Decrease/(increase) in inventories		2,195	(3,234)
(Increase)/decrease in trade and other receivables		(5,636)	8,037
(Decrease)/increase in trade and other payables		(23,504)	10,196
Cash generated from operations		46,974	47,000

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities

	Convertible bond HK\$' 000 (Note 27)	Convertible note HK\$' 000 (Note 28)	Conversion option embedded in convertible note HK\$' 000 (Note 28)	Interest payable HK\$' 000 (Note 26)	Total HK\$' 000
At 1 April 2018	67,148	232,094	2,093	11,084	312,419
Changes from financing cash flows:					
Redemption of convertible note	–	(375,000)	–	–	(375,000)
Interest paid	–	–	–	(1,262)	(1,262)
Total changes from financing cash flows:	–	(375,000)	–	(1,262)	(376,262)
Exchange adjustments	–	–	–	(683)	(683)
Changes in fair value	–	–	(2,093)	–	(2,093)
Other changes:					
Interest expenses (note 8(a))	6,430	11,356	–	–	17,786
Interest payable	(834)	–	–	834	–
Conversion of convertible bond	(27,091)	–	–	–	(27,091)
Redemption of convertible note	–	131,550	–	–	131,550
Total other changes	(21,495)	142,906	–	834	122,245
At 31 March 2019	45,653	–	–	9,973	55,626

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

25 CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (continued)

(c) Reconciliation of liabilities arising from financing activities (continued)

	Bank and other borrowings	Convertible bond	Convertible note	Conversion option embedded in convertible note	Interest payable	Total
	HK\$' 000 (Note 27)	HK\$' 000 (Note 28)	HK\$' 000 (Note 28)	HK\$' 000 (Note 26)	HK\$' 000	HK\$' 000
At 1 April 2017	101,375	116,541	219,412	3,203	10,126	450,657
Changes from financing cash flows:						
Proceeds from new other borrowings	79,789	-	-	-	-	79,789
Repayment of other borrowings	(182,211)	-	-	-	-	(182,211)
Interest paid	(1,886)	-	-	-	-	(1,886)
Total changes from financing cash flows	(104,308)	-	-	-	-	(104,308)
Exchange adjustments	1,047	-	-	-	(124)	923
Changes in fair value	-	-	-	(1,110)	-	(1,110)
Other changes:						
Interest expenses (note 8(a))	1,886	6,250	12,682	-	-	20,818
Interest payable	-	(1,082)	-	-	1,082	-
Modification of terms of convertible bond	-	(31,720)	-	-	-	(31,720)
Conversion of convertible bond	-	(22,841)	-	-	-	(22,841)
Total other changes	1,886	(49,393)	12,682	-	1,082	(33,743)
At 31 March 2018	-	67,148	232,094	2,093	11,084	312,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

26 TRADE AND OTHER PAYABLES

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Trade payables	87,897	120,694
Taxes other than income tax payable	15,568	12,542
Guarantee deposit	40,803	43,682
Payable due to Yanchang	63,792	83,767
Interest payable	9,973	11,084
Others	8,481	12,961
	226,514	284,730

All of the trade and other payables 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 2019 HK\$'000	At 31 March 2018 HK\$'000
Within 1 year	45,604	71,422
Over 1 year but within 2 years	24,654	26,944
Over 2 years but within 3 years	9,738	2,314
Over 3 years	7,901	20,014
Trade payables	87,897	120,694

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

27 CONVERTIBLE BOND

	Liability component	Equity component	Total
	HK\$'000	HK\$'000	HK\$'000
At 31 March 2017	116,541	133,092	249,633
Interest expenses (note 8(a))	6,250	–	6,250
Interest payable	(1,082)	–	(1,082)
Modification of terms of convertible bond (note (b))	(31,720)	31,589	(131)
Conversion of convertible bond (note (c))	(22,841)	(25,695)	(48,536)
At 31 March 2018	67,148	138,986	206,134
Interest expenses (note 8(a))	6,430	–	6,430
Interest payable	(834)	–	(834)
Conversion of convertible bond (note (e))	(27,091)	(52,867)	(79,958)
At 31 March 2019	45,653	86,119	131,772

Notes:

- (a) As at 29 July 2016, the convertible bonds originally had total nominal value of HK\$120,000,000 and interest at 1 % per annum which were payable half year in arrears. The convertible bonds were convertible into the Company's ordinary shares at a conversion price of HK\$0.0672 per share at any time before 30 April 2018.

The convertible bonds have been accounted for as compound financial instruments containing an equity component and a liability component. The liability component was initially measured at fair value of HK\$114,208,000 at discount rate of 4.12% per annum and carried at amortised cost.

- (b) On 15 August 2017, the Company entered into a deed of amendment with Titan Gas, one holder of the convertible bond, to further extend the maturity date of the convertible bond with nominal value of HK\$96,832,526 from 30 April 2018 to 30 April 2022, and to remove certain adjustment events to the conversion price.

The modification resulted in the extinguishment of the financial liability of the convertible bond and the recognition of new financial liability and equity component. The fair value of the new financial liability regarding the convertible bond revised portion immediately following the modification was approximately HK\$63,421,000. The fair value of the liability component was determined by discounted cash flows over the remaining terms of the convertible bonds at an effective interest rate of 10.88% per annum.

- (c) On 25 September 2017, Tanisca Investments Limited, another holder of the convertible bond, exercised the conversion rights to convert all the convertible bond held with the nominal value of HK\$23,167,474 into 344,754,077 ordinary shares.

- (d) On 22 August 2018, Titan Gas transferred parts of the convertible bonds with the nominal value of HK\$16,832,526 to three entities.

- (e) On 18 October 2018 and 17 December 2018, convertible bond holders exercised the conversion rights to convert their convertible bond with the nominal value of HK\$18,432,526 and HK\$18,400,000, into 274,293,540 and 273,809,523 ordinary shares respectively. At 31 March 2019, the remaining convertible bond with nominal value of HK\$60,000,000 was solely held by Titan Gas.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

28 CONVERTIBLE NOTE

	Liability component	Derivative component	Equity component	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
At 1 April 2017	219,412	3,203	34,583	257,198
Interest expenses (note 8(a))	12,682	–	–	12,682
Fair value changes on the derivative component (note 8(a))	–	(1,110)	–	(1,110)
At 31 March 2018	232,094	2,093	34,583	268,770
Interest expenses (note 8(a))	11,356	–	–	11,356
Fair value changes on the derivative component (note 8(a))	–	(2,093)	–	(2,093)
Redemption of convertible note	(243,450)	–	(34,583)	(278,033)
At 31 March 2019	–	–	–	–

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.

The convertible note has been accounted for as a compound financial instrument containing an equity component, a liability component and a derivative component. The liability component was initially measured at fair value of HK\$211,218,000 at discount rate of 5.78% per annum and carried at amortised cost. The redemption option is classified as a derivative financial instrument and has been included in the balance of convertible note in the consolidated statement of financial position.

On 4 February 2019, the Company redeemed all of the outstanding convertible note at the amount of HK\$375,000,000 after receiving the redemption notice from CN Holder (the “Redemption”). As the result, the finance cost amounting to HK\$131,500,000 was recognised due to the Redemption. Following the Redemption, the convertible note has been cancelled and the Company has been discharged from all of its obligations under and in respect of the convertible note.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

29 INCOME TAX IN THE CONSOLIDATED STATEMENT OF FINANCIAL POSITION

(a) *Deferred tax assets and liabilities recognised:*

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

	Provision for assets retirement obligation	Property, plant and equipment	Intangible assets	Accruals	Total
	HK\$'000	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Deferred tax arising from:					
At 1 April 2017	(3,505)	28,649	43	(11,694)	13,493
(Credited)/charged to profit or loss	(523)	9,414	(12)	951	9,830
Exchange adjustments	(410)	3,649	4	(1,208)	2,035
At 31 March 2018	(4,438)	41,712	35	(11,951)	25,358
(Credited)/charged to profit or loss	(606)	9,231	(12)	(510)	8,103
Exchange adjustments	294	(2,772)	(2)	789	(1,691)
At 31 March 2019	(4,750)	48,171	21	(11,672)	31,770

(b) *Deferred tax assets not recognised*

In accordance with the accounting policy set out in note 2(u), the Company and its subsidiaries have not recognised deferred tax assets in respect of cumulative tax losses amounting to HK\$123,875,000 (2018: HK\$147,493,000) as at 31 March 2019, as it is not probable that future taxable profits against which the losses can be utilised will be available in the relevant tax jurisdiction of the Company and its subsidiaries.

The unutilised tax losses in the PRC established entities will expire in five years after the tax losses generated under current tax legislation in 2023 and thereafter. The tax losses in those Hong Kong incorporated companies can be utilised to offset any future taxable profits under current tax legislation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

30 PROVISIONS

The amount represents provision for future dismantlement costs of oil and gas properties. Movements of provision during the reporting period are set out as follows:

	Assets retirement obligations
	HK\$'000
At 1 April 2017	35,117
Additions	6,799
Reassessment	7,807
Accretion expense	2,092
Exchange adjustments	4,777
At 31 March 2018	56,592
Additions	4,137
Reassessment	(8,009)
Accretion expense	2,425
Exchange adjustments	(3,726)
At 31 March 2019	51,419

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS

(a) Movements in components of equity

The reconciliation between the opening and closing balances of each component of the Company's consolidated equity is set out in the consolidated statement of changes in equity. Details of the changes in the Company's individual components of equity between the beginning and the end of the year are set out below:

Company

	Share capital HK\$'000 (note 31(c))	Share premium HK\$'000 (note 31(d)(i))	Other reserve HK\$'000 (note 31(d)(v))	Accumulated losses HK\$'000	Total equity HK\$'000
Balance at 31 March 2016 and 1 April 2017	43,646	2,768,895	228,725	(538,595)	2,502,671
Changes in equity for the year ended 31 March 2018:					
Total comprehensive income for the year	–	–	–	(49,319)	(49,319)
Conversion of convertible bond	3,448	45,088	(25,695)	–	22,841
Adjustment of unpaid preferred shares	(1,000)	(65,960)	3,348	–	(63,612)
Modification of terms of convertible bond	–	–	31,589	–	31,589
Issue of ordinary shares	14,850	1,467,228	–	–	1,482,078
Balance at 31 March 2018	60,944	4,215,251	237,967	(587,914)	3,926,248
Changes in equity for the year ended 31 March 2019:					
Total comprehensive income for the year	–	–	–	(158,100)	(158,100)
Conversion of convertible bond	5,481	74,477	(52,867)	–	27,091
Purchase of own shares	(466)	(54,542)	–	–	(55,008)
Redemption of convertible note	–	–	(34,583)	34,583	–
Balance at 31 March 2019	65,959	4,235,186	150,517	(711,431)	3,740,231

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS (continued)

(b) Dividends

No dividends were paid, declared or proposed during the year ended 31 March 2019 and 2018.

(c) 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 2017	8,000,000	80,000	5,000,000	50,000	13,000,000	130,000
Increase in authorised shares (note (i))	3,000,000	30,000	–	–	3,000,000	30,000
At 31 March 2018 and 31 March 2019	11,000,000	110,000	5,000,000	50,000	16,000,000	160,000
Issued, paid or payable:						
At 1 April 2017	1,616,741	16,167	2,747,909	27,479	4,364,650	43,646
Conversion of convertible bond (note 27(c))	344,754	3,448	–	–	344,754	3,448
Adjustment of unpaid preferred shares (note (ii))	–	–	(100,000)	(1,000)	(100,000)	(1,000)
Conversion of preferred shares (note (iii))	2,647,909	26,479	(2,647,909)	(26,479)	–	–
Issue of ordinary shares (note (iv))	1,485,000	14,850	–	–	1,485,000	14,850
At 31 March 2018	6,094,404	60,944	–	–	6,094,404	60,944
Conversion of convertible bond (note 27(e))	548,103	5,481	–	–	548,103	5,481
Purchase of own shares (note (v))	(46,600)	(466)	–	–	(46,600)	(466)
At 31 March 2019	6,595,907	65,959	–	–	6,595,907	65,959

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS (continued)

(c) Share capital (continued)

Notes:

- (i) Pursuant to a special resolution passed on 11 January 2018, the authorised share capital of the Company was increased from HK\$130,000,000 to HK\$160,000,000 by the creation of 3,000,000,000 ordinary 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. The total cash consideration for the subscription is HK\$2,690,000,000, of which HK\$2,626,388,000 have been received during the year ended 31 March 2018. The remaining consideration receivables of HK\$63,612,000 related to 100,000,000 unpaid preferred shares was due from Aquarius Growth Investment Limited ("Aquarius"). Mr. Wang Jingbo is the director of Aquarius and holds a 9% equity interest in Aquarius. On 28 September 2017, the board of directors approved the cancellation and forfeiture of relevant 100,000,000 unpaid preferred shares and reversed the above receivable due from Aquarius.
- (iii) During the year ended 31 March 2018, total number of 2,647,909,199 preferred shares have been converted into 2,647,909,199 ordinary shares of the Company.
- (iv) On 22 January 2018, the Company issued a total of 1,485,000,000 ordinary shares at an aggregate subscription price of HK\$1,485 million for cash.
- (v) During the year ended 31 March 2019, the Company repurchased its own shares on the Stock Exchange as follows:

Month/year	Number of shares repurchased	Highest	Lowest	Aggregate price paid HK\$'000
		price paid per share HK\$	price paid per share HK\$	
July 2018	42,024,000	1.25	1.03	49,414
August 2018	4,576,000	1.25	1.20	5,594
	46,600,000			55,008

All the repurchased shares were cancelled by the Company upon such repurchase and, accordingly, the issued share capital of the Company was reduced by the nominal value of these shares. The premium payable on the repurchase was charged against the share premium account.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS (continued)

(d) Nature and purpose of reserves

(i) Share premium

The share premium represents the difference between the nominal value and the subscription price of ordinary shares and preferred shares issued by the Company.

(ii) Specific reserve

According to relevant PRC rules and regulations, Hongbo Mining is required to transfer an amount to specific reserve for the safety production fund based on the production volume of crude oil and natural gas. The amount of safety production fund utilised would be transferred from the specific reserve back to retained earnings.

(iii) Exchange reserve

The exchange reserve comprises all foreign exchange differences arising from the translation of the financial statements of foreign operations as well as the effective portion of any foreign exchange differences arising from hedges of the net investment in these foreign operations. The reserve is dealt with in accordance with the accounting policies set out in note 2(x).

(iv) Fair value reserve (non-recycling)

The fair value reserve (non-recycling) comprises the cumulative net change in the fair value of equity investment designated at FVOCI under HKFRS 9 that are held at the end of reporting period in accordance with the accounting policy in note 2(f).

(v) Other reserve

The other reserve comprises the equity component of convertible bond and convertible note, and reserves arising from the Reverse Takeover Transaction.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

31 CAPITAL, RESERVES AND DIVIDENDS (continued)

(e) Capital management

The Company and its subsidiaries' primary objectives when managing capital are to safeguard the Company and its subsidiaries' ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders, by pricing products and services commensurately with the level of risk and by securing access to finance at a reasonable cost.

The Company and its subsidiaries actively and regularly review and manage their capital structure to maintain a balance between the higher shareholder returns that might be possible with higher levels of borrowings and the advantages and security afforded by a sound capital position, and makes adjustments to the capital structure in light of changes in economic conditions.

The Company and its subsidiaries monitor their capital structure on the basis of gearing ratio (ratio of the sum of convertible bond and convertible note to the total assets).

The Company and its subsidiaries' strategy is to maintain adequate funding from bank and related parties according to the operating needs and the capital commitments, and to maintain the gearing ratio at a range considered reasonable by management.

The Company and its subsidiaries' gearing ratio at 31 March 2019 and 2018 was as follows:

	Note	2019 HK\$'000	2018 HK\$'000
Interest-bearing debts:			
Convertible bond	27	45,653	67,148
Convertible note	28	–	234,187
Total debt		45,653	301,335
Total assets		3,898,769	4,263,461
Gearing ratio		1%	7%

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS

Exposure to credit, liquidity, interest rate, currency, oil price and equity price risks arises in the normal course of the Company and its subsidiaries' business.

The Company and its subsidiaries' exposure to these risks and the financial risk management policies and practices used by the Company and its subsidiaries to manage these risks are described below.

(a) *Credit risk*

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Company and its subsidiaries. The Company and its subsidiaries' credit risk is primarily attributable to cash at bank, derivative financial instruments and trade and other receivables. Management has a credit policy in place and the exposures to these credit risks are monitored on an ongoing basis.

The Company and its subsidiaries' credit risk arising from cash at bank and derivative financial instruments is limited because the counterparties are state-owned/controlled or listed bank and well-known financial institutions which the directors assessed the credit risk to be insignificant.

In respect of trade and other receivables, individual credit evaluations are performed on all debtors. These evaluations focus on the customer's past history of making payments when due and current ability to pay, and take into account information specific to the customer as well as pertaining to the economic environment in which the customer operates.

According to the crude oil sales agreement, a guarantee deposit of RMB35,000,000 was paid by the customer to Hongbo Mining (as included in trade and other payables) in return for a maximum 180 days credit period for an amount up to RMB35,000,000.

The Company and its subsidiaries does not provide any guarantees which would expose the Company and its subsidiaries to credit risk.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(b) Liquidity risk

Individual operating entities 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 Company and its subsidiaries' 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.

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

	Year ended 31 March 2019					Year ended 31 March 2018				
	Contractual undiscounted cash outflow				Carrying amount at 31 March	Contractual undiscounted cash outflow				Carrying amount at 31 March
	Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total		Within 1 year or on demand	More than 1 year but less than 2 years	More than 2 years but less than 5 years	Total	
	HK\$'000	HK\$'000	HK\$'000	HK\$'000		HK\$'000	HK\$'000	HK\$'000	HK\$'000	
Trade and other payables	226,514	-	-	226,514	226,514	284,730	-	-	284,730	284,730
Convertible bond	600	600	60,650	61,850	45,653	968	968	98,850	100,786	67,148
Convertible note	-	-	-	-	-	-	375,000	-	375,000	234,187
	227,114	600	60,650	288,364	272,167	285,698	375,968	98,850	760,516	586,065

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(c) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company and its subsidiaries' interest rate risk arises primarily from interest-bearing borrowings. The Company and its subsidiaries regularly review and monitor the mix of fixed and variable rate borrowing in order to manage its interest rate risks.

(i) Interest rate profile

The following table details the interest rate profile of the Company and its subsidiaries' interest-bearing borrowings at the respective reporting period end dates.

	31 March 2019		31 March 2018	
	Effective interest rate	HK\$'000	Effective interest rate	HK\$'000
	%		%	
Fixed rate borrowings:				
Convertible note	–	–	5.78%	234,187
Convertible bond	10.88%	45,653	10.88%	67,148
		45,653		301,335
Fixed rate borrowings as a percentage of total borrowings		100%		100%

(ii) Sensitivity analysis

As all the Company and its subsidiaries' interest-bearing borrowings are fixed rate borrowings and carried at other than fair value as at 31 March 2019 and 2018, there is no significant interest rate risk because of changes in market interest rates.

(d) Currency risk

The Company and its subsidiaries are exposed to currency risk primarily through overseas investment which give 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\$, US\$, A\$ and RMB. The Company and its subsidiaries manages this risk as follows:

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(d) *Currency risk* (continued)

(i) **Recognised assets and liabilities**

In respect of other receivables and payables denominated in foreign currencies, the Company and its subsidiaries ensures that the net exposure is kept to an acceptable level, by buying or selling foreign currencies at spot rates where necessary to address short-term imbalances. Most of the Company and its subsidiaries' borrowings are denominated in the functional currency of the entity taking out the loan. Given this, management does not expect that there will be any significant currency risk associated with the Company and its subsidiaries' borrowings.

(ii) **Exposure to currency risk**

The following table details the Company and its subsidiaries' exposure at the end of the reporting period to currency risk arising from recognised assets or liabilities denominated in a currency other than the functional currency of the entity to which they relate. For presentation purposes, the amounts of the exposure are shown in Hong Kong dollars, translated using the spot rate at the year end date. Differences resulting from the translation of the financial statements of foreign operations into the presentation currency are excluded.

	Exposure to foreign currencies (expressed in Hong Kong dollars)					
	31 March 2019			31 March 2018		
	United States Dollars HK\$'000	RMB HK\$'000	Hong Kong Dollars HK\$'000	United States Dollars HK\$'000	RMB HK\$'000	Hong Kong Dollars HK\$'000
Cash and cash equivalents	823,616	36	16,488	695,388	23	25,128
Trade and other receivables	–	–	–	58,071	–	–
Amount due to Group companies	–	–	–	–	–	(233,810)
Net exposure arising from recognised assets and liabilities	823,616	36	16,488	753,459	23	(208,682)

(iii) **Sensitivity analysis**

The directors of the Company considered that the Company and its subsidiaries' exposure to currency risk is not significant. It is assumed that the pegged rate between the Hong Kong dollar and the United States dollar would not be materially affected by any changes in movement in value of the United States dollar against other currencies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(e) Oil price risk

The principal activity of the Company is global energy assets investment and management. The principal activities of its subsidiaries and invested portfolios consisted of upstream oil and gas businesses, LNG liquefaction and exporting, LNG importing, processing and sales, and LNG Logistics services, as well as related energy investment fund management. Hongbo Mining, a wholly-owned subsidiary of the Company, is engaged in petroleum-related activities in the PRC. The Company also has the term loan granted to Stonehold, which is engaged in petroleum-related activities as well. 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 Company and its subsidiaries. A decrease in such prices could adversely affect the financial position of the Company and its subsidiaries. The Company and its subsidiaries actively used derivative instruments to hedge against potential price fluctuations of crude oil.

During the current accounting period, the Company purchased swaps and/or put options for part of the production of Hongbo Mining and Stonehold. Both the swaps and/or the put options place the Company in a hedged position, protecting the Company from a decline in the oil price over the stipulated period of time and preserving the value of the assets of Hongbo Mining and Stonehold. As of 31 March 2019, all derivative instruments of the Company had been settled.

(f) Equity price risk

The Company and its subsidiaries are exposed to equity price changes arising from equity investments classified as financial assets at FVTPL (see note 19) and financial assets at FVOCI (see note 20).

The Company and its subsidiaries holds investments in the securities listed on the Stock Exchange of Hong Kong and National Association of Securities Dealers Automated Quotations. Decisions to buy or sell trading securities are based on daily monitoring of the performance of individual securities compared to that of the Index and other industry indicators, as well as the Company and its subsidiaries' liquidity needs. Securities held in the financial assets at FVOCI portfolio have been chosen based on its longer term growth potential and are monitored regularly for performance against expectations. The portfolio is mainly focused on the energy related industry, in accordance with the limits set by the Company and its subsidiaries.

The Company and its subsidiaries are also exposed to equity price risk arising from changes in the Company's own share price to the extent that the Company's own equity instruments underlie the fair values of derivatives of the Company.

At 31 March 2019, it is estimated that an increase/decrease of 5% in the prices of respective listed financial securities investments, with all other variables held constant, would have increased/decreased the profit after tax (and decreased/increased accumulated losses) by HK\$7,571,000 (2018: HK\$573,000) as a result of the change in fair value of financial assets at FVTPL and would have increased/decreased the other comprehensive income (and total comprehensive income) by HK\$2,202,000 (2018: HK\$2,818,000) as a result of the change in fair value of financial assets at FVOCI.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(g) Fair value measurement of financial instruments

The fair value of the Company and its subsidiaries' financial instruments measured at the end of the reporting period on a recurring basis, is categorised into the three-level fair value hierarchy as defined in HKFRS 13, *Fair value measurement*. The level into which a fair value measurement is classified is determined with reference to the observability and significance of the inputs used in the valuation technique as follows:

- Level 1 valuations: Fair value measured using only Level 1 inputs i.e. unadjusted quoted prices in active markets for identical assets or liabilities at the measurement date
- Level 2 valuations: Fair value measured using Level 2 inputs i.e. observable inputs which fail to meet Level 1, and not using significant unobservable inputs. Unobservable inputs are inputs for which market data are not available
- Level 3 valuations: Fair value measured using significant unobservable inputs

	Fair value at 31 March 2019	Fair value measurements as at 31 March 2019 categorised into		
	HK\$'000	Level 1 HK\$'000	Level 2 HK\$'000	Level 3 HK\$'000
Recurring fair value measurements				
<i>Assets:</i>				
– Stonehold investment	1,510,062	–	–	1,510,062
– JOVO investment	138,154	–	–	138,154
– GNL Quebec investment	45,921	–	45,921	–
– Equity investment designate as FVOCI				
– listed in HK	44,038	44,038	–	–
– LNGL investment	142,739	142,739	–	–
– Trading securities listed in the U.S.	8,689	8,689	–	–
– Bank financing products	9,354	–	9,354	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(g) Fair value measurement of financial instruments (continued)

	Fair value at 31 March 2018	Fair value measurements as at 31 March 2018 categorised into		
		Level 1	Level 2	Level 3
	HK\$'000	HK\$'000	HK\$'000	HK\$'000
Recurring fair value measurements				
<i>Assets:</i>				
– Stonehold investment	1,389,206	–	1,389,206	–
– JOVO investment	129,152	–	–	129,152
– GNL Quebec investment	32,019	–	32,019	–
– Equity investment designate as FVOCI				
– listed in HK	56,369	56,369	–	–
– Trading securities listed in the U.S.	11,451	11,451	–	–
– Bank financing products	15,064	–	15,064	–
– Crude oil price put option	1,285	–	1,285	–
<i>Liabilities:</i>				
– Derivative component of the convertible note	2,093	–	2,093	–
– Crude oil price swaps	5,887	4,088	1,799	–

During the year ended 31 March 2019, the fair value measurement of the Stonehold investment was transferred from level 2 to level 3 for the reasons explained below. There were no other transfers between Level 1 and Level 2, or transfers into or out of Level 3. The Company and its subsidiaries' policy is to recognise transfers between levels of fair value hierarchy as at the end of the reporting period in which they occur.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(g) Fair value measurement of financial instruments (continued)

(i) Fair value of financial assets and liabilities measured at fair value

Valuation techniques and inputs used in Level 2 fair value measurements

The fair value of GNL Quebec investment in Level 2 is measured determined using market approach by reference to the price of a recent transaction carried out by other investors involving similar instruments with adjustment made to reflect the specific factor to the shares held by Valuevale.

Information about level 3 fair value measurement

	Valuation techniques	Significant unobservable inputs	Range
JOVO investment	Discounted cash flow	Discount rate	19% (31 March 2018: 23%)
Stonehold investment	Discounted cash flow	Discount rate Oil price Proved reserves	9.3% USD54.4-97.0/bbl. 17,861.3MBOE

The fair value of the JOVO investment measured at FVTPL is based on the Discounted Cash Flow Model. The cost of equity is determined based on the Capital Asset Pricing Model with additional risk premium built in to reflect the risks specific to JOVO. The discount rate is then estimated by using the debt/equity weights of JOVO. As at 31 March 2019, it is estimated that with all other variables held constant, a decrease/increase in discount rate by 1% would have increased/decreased the profit after tax (and decreased/increased accumulated losses) by HK\$6,098,000 and HK\$5,390,000 respectively (31 March 2018: HK\$3,999,000 and HK\$3,639,000 respectively).

Given the extent of the Company and its subsidiaries' exposure to the fluctuation in the value of the underlying assets held by Stonehold, as at 31 March 2019 the fair value of the Stonehold investment is measured using a Discounted Cash Flow Model. The discount rate is estimated by using the debt/equity weights of Stonehold, with Stonehold's cost of equity being determined based on the Capital Asset Pricing Model with additional risk premium built in to reflect the risks specific to Stonehold. The oil prices are forecasted with reference to WTI crude oil price forecast made by an independent valuer adjusted by pricing differentials applied to account for transportation charges, geographical differentials, and quality adjustments. The proved reserves of Stonehold are estimated by an independent valuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(g) Fair value measurement of financial instruments (continued)

(i) Fair value of financial assets and liabilities measured at fair value (continued)

Information about level 3 fair value measurement (continued)

As at 31 March 2019, it is estimated that with all other variables held constant, (i) a decrease/increase in discount rate by 1% would have increased/decreased the profit after tax (and decreased/increased accumulated losses) by HK\$75,928,000 and HK\$45,028,000 respectively; (ii) an increase/decrease in oil price by 10% would have increased/decreased the profit after tax (and decreased/increased accumulated losses) by HK\$166,387,000 and HK\$61,846,000 respectively; (iii) an increase/decrease in the proved reserves by 5% would have increased/decreased the profit after tax (and decreased/increased accumulated losses) by HK\$99,609,000 and HK\$61,846,000 respectively.

The movements during the period in the balance of Level 3 fair value measurements is as follows:

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
JOVO investment:		
At the beginning of the reporting period	129,152	116,450
Net unrealised gains recognised in profit or loss during the period	9,002	12,702
At the end of the reporting period	138,154	129,152
Total gains for the period included in profit or loss for assets held at the end of the reporting period	9,002	12,702
Stonehold investment:		
At the beginning of the reporting period		–
Transfer into Level 3		1,510,062
At the end of the reporting period		1,510,062
Total gains for the period included in profit or loss for assets held at the end of the reporting period		184,361

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

32 FINANCIAL RISK MANAGEMENT AND FAIR VALUES OF FINANCIAL INSTRUMENTS (continued)

(g) Fair value measurement of financial instruments (continued)

(i) Fair value of financial assets and liabilities measured at fair value (continued)

Transfers between Level 2 and 3 and change in valuation technique

During the year ended 31 March 2019, due to the changes in the international oil price, external economic circumstance and regulatory limit, the Company and Think Excel's entitlement to additional interest (i.e. the Company and Think Excel's entitlement to an amount equivalent to 92.5% of the surplus disposal proceeds of the underlying assets, as described above) for the first time had a substantive and practical significance to the fair value of the Stonehold investment. The fair value of the Stonehold investment was determined using the Discounted Cash Flow Model, significant unobservable inputs are disclosed above.

As a result, as at 31 March 2019, the valuation technique changed from a Hull-White Model, which made reference to comparable market data and the probability of call (or put) being exercised, to the discounted cash flow model described above, and transferred the Stonehold investment from level 2 to level 3 in the fair value hierarchy.

(ii) Fair value of financial assets and liabilities carried at other than fair value

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the consolidated financial statements approximate their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

33 COMMITMENTS

(a) *Capital commitments outstanding at 31 March 2019 not provided for in the financial statements were as follows:*

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Contracted, but not provided for – property, plant and equipment	26,503	23,150

(b) *At 31 March 2019, total future minimum lease payments under non-cancellable operating leases payable are as follows:*

	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Within 1 year	1,975	376
After 1 year but within 5 years	3,685	–
	5,660	376

The Company and its subsidiaries lease certain buildings through non-cancellable operating leases. These operating leases do not contain provisions for contingent lease rentals. None of the rental agreements contain escalation provisions that may require higher future rental payments.

34 MATERIAL RELATED PARTY TRANSACTIONS

(a) *Key management personnel remuneration*

Remuneration for key management personnel, including amounts paid to the Company's directors as disclosed in note 10 and certain of the highest paid employees as disclosed in note 11, is as follows:

	Year ended 31 March	
	2019 HK\$'000	2018 HK\$'000
Short-term employee benefits	8,646	9,742
Post-employment benefits	247	80
	8,893	9,822

Total remuneration is included in "staff costs" (see note 8(b)).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

34 MATERIAL RELATED PARTY TRANSACTIONS (continued)

(b) Material related party transactions

Apart from the transactions disclosed elsewhere in this annual financial report, there were following material transactions with related parties during the reporting period.

	Year ended 31 March	
	2019	2018
	HK\$'000	HK\$'000
With the immediate holding company		
– increase in interest payable on convertible bond (note (i))	793	968

Note:

- (i) Interest on the convertible bonds was payable to Titan Gas at 1% per annum. As at 31 March 2019, Titan Gas held the Company's convertible bonds with principal amount of HK\$60,000,000. Details of the transaction and the terms of the convertible bonds were disclosed in note 27.

(c) Related party balances

The outstanding balances with related parties are as follows:

	At 31 March	At 31 March
	2019	2018
	HK\$'000	HK\$'000
Trade and other payables		
– the immediate holding company	145	614
Convertible bond		
– the immediate holding company	45,653	67,148

(d) Applicability of the Listing Rules relating to connected transactions

None of the above related party transactions falls under the definition of connected transaction or continuing connected transaction defined in Chapter 14A of the Listing Rules.

35 CONTINGENT LIABILITIES

So far as is known to the Directors, as at 31 March 2019, there had been no litigation, arbitration or claim of material importance in which the Company or its respective subsidiaries was engaged or pending or which as threatened against the Company or its respective subsidiaries.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND COMPANY-LEVEL OF STATEMENT OF PROFIT ON LOSS AND OTHER COMPREHENSIVE INCOME

	Note	At 31 March 2019 HK\$'000	At 31 March 2018 HK\$'000
Non-current assets			
Investments in subsidiaries		886,789	652,979
Loan to a subsidiary		–	233,810
		886,789	886,789
Current assets			
Prepayments, deposits and other receivables		1,937,889	1,869,713
Financial assets at fair value through profit or loss		6,302	8,305
Derivative financial instruments		–	1,285
Cash and cash equivalents		967,022	1,479,799
		2,911,213	3,359,102
Current liabilities			
Other payables and accruals		12,118	16,509
Derivative financial instruments		–	1,799
		12,118	18,308
Net current assets		2,899,095	3,340,794
Total assets less current liabilities		3,785,884	4,227,583
Non-current liabilities			
Convertible bond	27	45,653	67,148
Convertible note	28	–	234,187
		45,653	301,335
NET ASSETS		3,740,231	3,926,248
CAPITAL AND RESERVES			
Share capital	31(c)	65,959	60,944
Reserves		3,674,272	3,865,304
TOTAL EQUITY		3,740,231	3,926,248

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

36 COMPANY-LEVEL STATEMENT OF FINANCIAL POSITION AND COMPANY-LEVEL OF STATEMENT OF PROFIT ON LOSS AND OTHER COMPREHENSIVE INCOME (continued)

	At 31 March	
	2019 HK\$' 000	2018 HK\$' 000
Investment income	(11,827)	(1,384)
Total income from principal business activities, net of cost	(11,827)	(1,384)
Administrative expenses	(23,207)	(41,827)
Loss before net finance costs and taxation	(35,034)	(43,211)
Finance income	28,610	11,583
Finance costs	(151,676)	(17,691)
Net finance costs	(123,066)	(6,108)
Loss before taxation	(158,100)	(49,319)
Income tax	–	–
Loss for the year	(158,100)	(49,319)
Other comprehensive income for the year	–	–
Total comprehensive income for the year	(158,100)	(49,319)

Approved and authorised for issue by the board of directors on 21 June 2019.

Wang Jingbo)	
)	
)	Director
Lee Khay Kok)	
)	

37 COMPARATIVE FIGURES

The Group has initially applied HKFRS 15 at 1 April 2018. Under the transaction methods chosen, comparative information is not restated. Further details of the changes in accounting policies are disclosed in note 2(c).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

38 IMMEDIATE AND ULTIMATE CONTROLLING PARTY

At 31 March 2019, the directors consider the immediate parent of the Company and its subsidiaries to be Titan Gas, incorporated in the British Virgin Islands, which is 75.73% held by Titan Gas Technology Holdings Limited. Titan Gas Technology Holdings Limited is owned as to 35.13% by Standard Gas Capital Limited, 49.14% by IDG-Accel China Capital II L.P. and IDG-Accel China Capital II Investors L.P., 8.05% by Mr. Wang Jingbo and 6.87% by Kingsbury International Holdings Co., Ltd., 0.73% by Zhang Weiwei and 0.08% by Bryce Wayne Lee.

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2019

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 March 2019 and which have not been adopted in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 16, <i>Leases</i>	1 January 2019
Amendments to HKAS 28, <i>Long-term interest in associates and joint ventures</i>	1 January 2019

The Group is in the process of making an assessment of what the impact of these amendments, new standards and interpretations is expected to be in the period of initial application. While the assessment has been substantially completed for HKFRS 16, the actual impact upon the initial adoption of this standard may differ as the assessment completed to date is based on the information currently available to the Group, and further impacts may be identified before the standard is initially applied in the Group's interim financial report for the six months ended 30 September 2019. The Group may also change its accounting policy elections, including the transition options, until the standard is initially applied in that financial report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

(Expressed in Hong Kong dollars unless otherwise indicated)

39 POSSIBLE IMPACT OF AMENDMENTS, NEW STANDARDS AND INTERPRETATIONS ISSUED BUT NOT YET EFFECTIVE FOR THE YEAR ENDED 31 MARCH 2019 (continued)

HKFRS 16, *Leases*

As disclosed in note 2(m), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding “right-of-use” asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

HKFRS 16 will primarily affect the Group’s accounting as a lessee of leases for land and buildings which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. As allowed by HKFRS 16, the Group plans to use the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. The Group will therefore apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. In addition, the Group plans to elect the practical expedient for not applying the new accounting model to short-term leases and leases of low-value assets.

The Group plans to elect to use the modified retrospective approach for the adoption of HKFRS 16 and will recognise the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 April 2019 and will not restate the comparative information. As disclosed in note 33(b), at 31 March 2019 the Group’s future minimum lease payments under non-cancellable operating leases amount to HK\$5,660,000 for building, the majority of which is payable within 5 years after the reporting date. Upon the initial adoption of HKFRS 16, the Group expects that the transition adjustments to be made will not be material.