Hoifu Energy Group Limited

凱富能源集團有限公司

(Incorporated in Bermuda with limited liability)

(Stock Code: 7)

INTERIM RESULTS ANNOUNCEMENT FOR THE SIX MONTHS ENDED 30 JUNE 2014

INTERIM RESULTS

The Board of Directors (the "Board") of Hoifu Energy Group Limited (the "Company") announced the unaudited consolidated interim results of the Company and its subsidiaries (the "Group") for the six months ended 30 June 2014 together with the comparative figures for the six months ended 30 June 2013 as follows:

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six Months ended 30 June	
	NOTES	**2014** ***HK$'000*** **(unaudited)**	2013 *HK$'000* (unaudited)
Revenue	*3*	**99,407**	359,469
Cost of goods sold and direct cost		**(90,665)**	(349,205)
Gross profit		**8,742**	10,264
Other income		**996**	708
Other gains or losses	*4*	**(475)**	4,750
Administrative expenses		**(28,371)**	(21,396)
Loss from operation		**(19,108)**	(5,674)
Finance costs	*6*	**(1,803)**	(1,251)
Loss before taxation	*7*	**(20,911)**	(6,925)
Taxation	*8*	**360**	–
Loss for the period		**(20,551)**	(6,925)
Other comprehensive (expenses)/income Exchange differences arising on translation		**(3,622)**	821
Other comprehensive (expenses)/income for the period		**(3,622)**	821
Total comprehensive expenses for the period		**(24,173)**	(6,104)

CONDENSED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME — continued
FOR THE SIX MONTHS ENDED 30 JUNE 2014

		Six Months ended 30 June	
		2014	2013
	NOTES	***HK$'000***	*HK$'000*
		(unaudited)	(unaudited)
Loss for the period attributable to:			
Owners of the Company		**(20,113)**	(6,920)
Non-controlling interests		**(438)**	(5)
		(20,551)	(6,925)
Total comprehensive expenses for the period attributable to:			
Owners of the Company		**(23,735)**	(6,099)
Non-controlling interests		**(438)**	(5)
		(24,173)	(6,104)
Loss per share — Basic	*10*	**HK(1.33) cents**	HK(0.47) cents

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 JUNE 2014

	NOTES	30 June 2014 HK$'000 (unaudited)	31 December 2013 HK$'000 (audited)
NON-CURRENT ASSETS			
Fixed assets		**3,236**	1,634
Intangible assets		**9,810**	11,011
Exploration and evaluation assets		**5,776**	5,776
Goodwill	*11*	**14,709**	–
Deposits paid for acquisition of land use rights	*11*	**156,554**	–
Statutory deposits		**4,109**	4,107
Loans receivable		**507**	406
		194,701	22,934
CURRENT ASSETS			
Accounts receivable	*12*	**127,616**	97,376
Loans receivable		**240**	416
Other receivables, prepayments and deposits		**144,131**	72,255
Pledged fixed deposits (general accounts)	*13*	**7,549**	7,543
Bank balances (trust and segregated accounts)		**83,365**	75,199
Bank balances (general account) and cash		**70,129**	177,839
		433,030	430,628
CURRENT LIABILITIES			
Accounts payable	*14*	**99,696**	93,219
Other payables and accrued expenses		**83,952**	28,342
Amount due to a Director		**75,541**	65,878
		259,189	187,439
NET CURRENT ASSETS		**173,841**	243,189
TOTAL ASSETS LESS CURRENT LIABILITIES		**368,542**	266,123
NON-CURRENT LIABILITIES			
Deferred tax liabilities		**2,943**	3,303
NET ASSETS		**365,599**	262,820

CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION — continued
AT 30 JUNE 2014

	NOTES	**30 June 2014** **HK$'000** **(unaudited)**	31 December 2013 *HK$'000* (audited)
CAPITAL AND RESERVES			
Share capital	*16*	**151,478**	148,810
Reserves		**159,167**	142,102
Equity attributable to owners of the Company		**310,645**	290,912
Non-controlling interests		**54,954**	(28,092)
TOTAL EQUITY		**365,599**	262,820

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

FOR THE SIX MONTHS ENDED 30 JUNE 2014

1. BASIS OF PREPARATION

The Company is an investment holding company. The principal activities of the Company and its subsidiaries (hereinafter collectively referred to as the "Group") include petrochemical production, oil and gas exploration and production, mineral mining business and provision of financial services.

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") and with Hong Kong Accounting Standard 34 "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA").

2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis.

The accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 30 June 2014 are the same as those followed in the preparation of the Group's annual financial statements for the year ended 31 December 2013.

In the current interim period, the Group has applied, for the first time, the following amendments to Hong Kong Financial Reporting Standards ("HKFRSs") issued by HKICPA:

Amendments to HKFRS 10, HKFRS 12 and HKAS 27	Investment Entities
Amendments to HKAS 32	Offsetting Financial Assets and Financial Liabilities
Amendments to HKAS 36	Recoverable Amount Disclosures for Non-Financial Assets
Amendments to HKAS 39	Novation of Derivatives and Continuation of Hedge Accounting
HK(IFRIC)–Int 21	Levies

The application of the above amendments to HKFRSs in the current interim period has no material effect on the amounts reported in these condensed consolidated financial statements and/or disclosures set out in these condensed consolidated financial statements.

Issued but not yet effective Hong Kong Financial Reporting Standards

HKFRS 9	Financial Instruments[3]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 15	Revenue from Contracts with Customers[6]
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation[5]
Amendments to HKAS 16 and HKAS 41	Agriculture:Bearer Plants[5]
Amendments to HKAS 19	Defined Benefit Plans:Employee Contributions[2]
Amendments to HKFRS 11	Accounting for Acquisition of Interests in Joint Operations[5]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle[1]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle[2]

1 Effective for annual periods beginning on or after 1 July 2014, with limited exceptions
2 Effective for annual periods beginning on or after 1 July 2014
3 Available for application – the mandatory effective date will be determined when the outstanding phases of HKFRS 9 are finalised
4 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016
5 Effective for annual periods beginning on or after 1 January 2016
6 Effective for annual periods beginning on or after 1 January 2017

The Group is in the process of assessing their impact on the Group's results and financial position.

3. REVENUE

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Sales of natural resources and petrochemicals	**88,350**	347,537
Commission and brokerage income	**6,607**	7,572
Interest income arising from financial business	**3,139**	2,347
Advisory and consultancy fee	**1,311**	2,013
	99,407	359,469

4. OTHER GAINS OR LOSSES

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
(Provision)/Reversal of allowance bad and doubtful debts	**(390)**	6,279
Net exchange loss	**(85)**	(1,529)
	(475)	4,750

5. SEGMENT INFORMATION

The following is an analysis of the Group's revenue and results by reportable segment for the period under review:

For the six months ended 30 June 2014:

	Trading business	**Mineral mining, oil and gas business**	**Financial business**	**Consolidated**
	HK$'000	***HK$'000***	***HK$'000***	***HK$'000***
REVENUE				
Segment revenue	**88,350**	**–**	**11,057**	**99,407**
RESULTS				
Segment profit/(loss)	**517**	**(1,513)**	**(1,555)**	**(2,551)**
Corporate administration costs				**(18,360)**
Loss before taxation				**(20,911)**

5. **SEGMENT INFORMATION — continued**

For the six months ended 30 June 2013:

	Trading business *HK$'000*	Mineral mining, oil and gas business *HK$'000*	Financial business *HK$'000*	Consolidated *HK$'000*
REVENUE				
Segment revenue	347,537	–	11,932	359,469
RESULTS				
Segment profit/(loss)	2,058	(1,561)	4,340	4,837
Corporate administration costs				(11,762)
Loss before taxation				(6,925)

Segment profit/(loss) represents the financial results by each segment without allocation of corporate administrative costs. This is the measure reported to the Board of Directors for the purpose of resources allocation and performance assessment.

The geographical information of revenue is shown as follows:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
PRC	**–**	160,165
Hong Kong	**99,407**	11,932
Overseas	**–**	187,372
	99,407	359,469

6. **FINANCE COSTS**

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Interest from bank loan and other borrowing wholly repayable within five years	**1,803**	1,251

7. LOSS BEFORE TAXATION

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

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Amortisation	**1,202**	–
Depreciation	**345**	223
Staff cost, including Directors' remuneration	**16,187**	13,946
Contributions to retirement benefits scheme (included in staff costs)	**306**	298
Cost of inventories recognised as expense	**86,909**	345,479
(Gain)/Loss from error trades	**(8)**	21
Interest income on bank deposits (included in other income)	**(198)**	(7)
Operating lease in respect of office premises	**4,519**	2,558

8. TAXATION

No provision for Hong Kong Profits Tax has been made in the condensed consolidated financial statements for the six months ended 30 June 2013 and 2014 as the companies within the Group either had no assessable profits arising from Hong Kong or the assessable profits were wholly absorbed by estimated losses brought forward.

9. DIVIDENDS

No dividends were paid, declared or proposed during the period. The Directors do not recommend the payment of an interim dividend (2013: Nil).

10. LOSS PER SHARE

The calculation of the basic loss per share is based on the following data:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Loss		
Loss for the period attributable to owners of the Company for the purpose of basic loss per share	**(20,113)**	(6,920)
Weighted average number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**1,517,195**	1,456,844

No diluted loss per share was presented as there were no potential ordinary shares during the six months ended 30 June 2013 and 2014.

11. GOODWILL AND DEPOSITS PAID FOR ACQUISITION OF LAND USE RIGHTS

The goodwill and deposits paid for acquisition of land use rights were generated from the acquisition of 65% equity interest in Beibuwan Yuchai Energy Chemical Co., Ltd ("Beibuwan Energy") on 7 March 2014.

The goodwill was attributable to the target's management expertise and the synergies expected to be derived from a more solid foundation and better operating condition for the Group's long-term development of petrochemical business in Guangxi.

The deposits paid for acquisition of land use rights represented the consideration paid by Beibuwan Energy to obtain land use rights at Qinzhou Petrochemical Industrial Park, Qinzhou Port, Guangxi with total area of approximately 2,100 mu, of which 1,873 mu will be used for production while the remaining area will be used for storage.

12. ACCOUNTS RECEIVABLE

	30 June 2014 *HK$'000* **(unaudited)**	31 December 2013 *HK$'000* (audited)
Accounts receivable arising from trading of natural resources and petrochemicals	**49,600**	13,220
Accounts receivable arising from dealing in securities		
— Cash clients	**26,474**	29,678
— Hong Kong Securities Clearing Company Limited ("HKSCC")	**–**	4,108
Accounts receivable from Hong Kong Futures Exchange Clearing Corporation Limited ("HKFECC") arising from the business of dealing in futures contracts	**2,626**	2,758
Loans to securities margin clients	**48,373**	45,749
Accounts receivable arising from the business of advisory for financial management	**543**	1,863
	127,616	97,376

Accounts receivable arising from trading of natural resources and petrochemicals were aged within 90 days.

The settlement terms of accounts receivable from cash client, HKSCC and HKFECC are usually one to two days after the trade date. Except for the accounts receivable from cash clients as mentioned below, the accounts receivables from HKSCC and HKFECC were aged within 30 days.

Loans to securities margin clients are repayable on demand and bear interest at Hong Kong Prime Rate quoted by Wing Hang Bank Limited plus 3% equivalent to 8.25% (31 December 2013: Hong Kong Prime Rate quoted by Wing Hang Bank Limited plus 3% equivalent to 8.25%) per annum. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value. The loans are secured by pledged marketable securities at fair value of approximately HK$47,598,000 (31 December 2013: HK$183,254,000). The percentage of collateral over the outstanding balance at 30 June 2014 is ranged from 0% to 6,144% (31 December 2013: 103% to 3,870%). The Group is permitted to sell or repledge the marketable securities if the customer defaults the payment as requested by the Group.

12. ACCOUNTS RECEIVABLE — continued

The Group does not provide any credit term to its advisory for financial management clients. The aged analysis of accounts receivable arising from clients under the business of advisory for financial management is as follow:

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 90 days	**68**	1,603
More than 90 days	**475**	260
	543	1,863

The aged analysis of accounts receivable arising from cash clients is as follows:

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(unaudited)	(audited)
0 to 90 days	**22,652**	28,135
91 to 180 days	**3,822**	1,543
	26,474	29,678

13. PLEDGED FIXED DEPOSITS

The Group pledged fixed deposits to banks to secure general banking facilities granted to the Group. The pledged fixed deposits carry interest rates ranging from 0.020% to 0.225% (31 December 2013: 0.020% to 0.225%) per annum and will be released upon the expiry of relevant banking facilities.

14. ACCOUNTS PAYABLE

	30 June 2014	31 December 2013
	HK$'000	*HK$'000*
	(unaudited)	(audited)
Accounts payable arising from the business of dealing in securities:		
— Cash clients	**87,463**	80,276
— HKSCC	**531**	1,368
Accounts payable to clients arising from the business of dealing in futures contracts	**4,344**	5,236
Amounts due to securities margin clients	**7,358**	6,339
	99,696	93,219

The settlement term of accounts payable to cash client and HKSCC is two days after the trade date and aged within 30 days.

14. ACCOUNTS PAYABLE — continued

Accounts payable to clients arising from the business of dealing in futures contracts are margin deposits received from clients for their trading of futures contracts on the HKFECC. The excess of the outstanding amounts over the required margin deposits stipulated by the HKFECC are repayable to clients on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

Amounts due to securities margin clients are repayable on demand. In the opinion of the Directors, no aged analysis is disclosed as the aged analysis does not give additional value.

The accounts payable amounting to HK$83,365,000 (31 December 2013: HK$75,199,000) were payable to clients or other institutions in respect of the trust and segregated bank balances received and held for clients in the course of the conduct of regulated activities. However, the Group does not have a currently enforceable right to offset these payables with the deposits placed.

15. RELATED PARTY TRANSACTIONS

Transactions with related parties:

(a) During the period, the Group received commission income and other securities dealing income from securities dealing of HK$79,000 (2013:HK$4,000) from close family members of two Directors, Messrs. Lam Kwok Hing and Nam Kwok Lun.

(b) During the period, the Group received commission income and other securities dealing income from securities dealing of HK$7,200 (2013: HK$9,000) from Asia Tele-Net and Technology Corporation Limited ("ATNT"), a company incorporated in Bermuda with its shares being listed on the Stock Exchange in which two Directors, Messrs. Lam Kwok Hing and Nam Kwok Lun, have controlling interests.

(c) As at 30 June 2014, outstanding advances from a Director, Mr. Nam Kwok Lun, amounted to HK$75,541,000 (31 December 2013: HK$65,878,000). During the period, the Group paid finance cost of HK$1,803,000 (2013: HK$1,029,000) to the Director.

(d) During the period, the Group did not receive any interest income from securities dealing (2013: HK$50) from close family members of two Directors. Messrs. Lam Kwok Hing and Nam Kwok Lun.

(e) During the period, the Group paid rental fee amounting to HK$1,080,000 (2013: HK$180,000) to a company in which Dr. Hui Chi Ming, a Director, has beneficial interest.

The remuneration of key management personnel who are the Directors of the Company during the period was as follow:

	Six months ended 30 June	
	2014	2013
	HK$'000	*HK$'000*
	(unaudited)	(unaudited)
Short-term benefits	**6,240**	5,571
Post-employment benefits	**47**	31
	6,287	5,602

16. SHARE CAPITAL

	Number of shares '000	HK$'000
Ordinary shares of HK$0.10 each		
Authorised:		
At 1 January 2013, 30 June 2013, 31 December 2013, 1 January 2014 and 30 June 2014	10,000,000	1,000,000
Issued and fully paid:		
At 1 January 2013 and 30 June 2013	1,456,844	145,684
Share repurchased and cancelled *(note a)*	(740)	(74)
Issue on 6 December 2013 *(note b)*	32,000	3,200
At 31 December 2013 and 1 January 2014	1,488,104	148,810
Share repurchased and cancelled *(note c)*	(22,752)	(2,275)
Exercised of share options *(note d)*	30,000	3,000
Issued in consideration for the acquisition *(note e)*	19,426	1,943
At 30 June 2014	1,514,778	151,478

Notes:

(a) During the year ended 31 December 2013, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share Highest HK$	Price per share Lowest HK$	Aggregate consideration paid HK$'000
November 2013	740,000	1.45	1.39	1,031

The above shares were cancelled on 29 November 2013.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year.

(b) Pursuant to 2 subscription agreements dated 21 November 2013 entered into between Mr. Chen Weiwen, Mr. Fan Chun Sing ("Subscribers") and the Company, Subscribers subscribed for 32,000,000 new shares of HK$0.10 in the Company at a price of HK$1.42 per share. These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 27 June 2013. All the issued shares rank pari passu in all respects with other shares in issue. Details of the subscription have been disclosed in the announcement dated on 21 November 2013. The net proceeds raised from the issue of shares amounted to approximately HK$45,240,000, of which approximately HK$2,840,000 was intended to be used for general working capital while the remaining balance of approximately HK$42,400,000 was intended to be used for funding the proposed investments of the Group.

16. SHARE CAPITAL — continued

Notes: (continued)

(c) During the six months ended 30 June 2014, the Company repurchased its own shares through the Stock Exchange of Hong Kong Limited as follows:

Month of repurchase	No. of ordinary shares of HK$0.10 each	Price per share Highest	Price per share Lowest	Aggregate consideration paid
		HK$	*HK$*	*HK$'000*
April 2014	15,004,000	1.88	1.54	26,052
May 2014	7,748,000	1.56	1.00	10,733

The above shares were cancelled during the period.

None of the Company's subsidiaries purchased, sold or redeemed any of the Company's listed securities during the period.

(d) On 20 January 2014, a total of 30,000,000 share option was exercised at an exercise price of HK$1.38, and a total of 30,000,000 shares was issued with aggregate nominal value of HK$3,000,000.

(e) During the six months ended 30 June 2014, the Group acquired 65% equity interest in Beibuwan Yuchai Energy Chemical Co., Ltd. at a consideration of approximately RMB128,172,000 (equivalent to approximately HK$160,112,000), of which approximately RMB97,672,000 settled by cash and approximately RMB30,500,000 was settled by the issue of 19,426,624 new shares of HK$0.10 in the Company at a price of HK$2 per share. All the issued shares rank pari passu in all respects with other shares in issue. Further details of the acquisition have been disclosed in the Company's announcement dated 4 March 2014 and the Company's circular dated 28 February 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

RESULTS

During the six months ended 30 June 2014, the total revenue for the Group was approximately HK$99,407,000 (2013: HK$359,469,000). Loss attributable to owners of the Company was approximately HK$20,113,000 (2013: HK$6,920,000). The decrease in total revenue and increase in net loss were mainly due to (i) the decrease in trading revenue from sales of natural resources and petrochemicals; (ii) the decrease in other gains; and (iii) the increase in administration expenses.

FINANCIAL REVIEW

Revenue

The Group's unaudited consolidated revenue for the six months ended 30 June 2014 was approximately HK$99.4 million (2013: HK$359.5 million) representing a year on year decrease of 72.4% as compared to the same period last year. During the first half of 2014, the growth rate of China's macro-economy further slowed down as a result of the combined effect of weak external demand and domestic structural economic adjustment. The loss of momentum of China's economic growth led to the sharp drop in the demand for the Group's main products such as coals. As a result, facing the adverse market condition, the Group recorded such a significant decrease in revenue. The management anticipates improvement in revenue in the second half of the year.

Administration expenses

Administration expenses, which represented approximately 28.5% (2013: 6.0%) of the Group's revenue, increased by approximately 32.6% to approximately HK$28.4 million for the six months ended 30 June 2014 from approximately HK$21.4 million for the six months ended 30 June 2013. The increase was mainly attributable to the increases in the staff costs, rents of offices as well as legal and professional fees on acquisitions during the period under review.

Other gains and losses

During the period under review, the Group recorded other losses of approximately HK$0.48 million (2013: other gains of approximately HK$4.75 million), decreased by approximately 110% or by approximately HK$5.23 million. The decrease in other gains was mainly due to the fact that a reversal of allowance bad and doubtful debts of approximately HK$6.3 million, a one-off gain, was recognised in the same period of last year and no such extra gain was recorded during the period under review.

PETROCHEMICAL BUSINESS

On 15 December 2013, the Group entered into an agreement to acquire 65% equity interest in Beibuwan Yuchai Energy Chemical Co., Ltd. ("Beibuwan Energy"). The acquisition was completed on 7 March 2014.

Beibuwan Energy has planned to construct an olefins and aromatics manufacturing plant with annual production capacity of 2 million tones at Qinzhou Petrochemical Industrial Park, Qinzhou Port, Guangxi with total area of approximately 2,100 mu, of which 1,873 mu will be used for production while the remaining area will be used for storage. The manufacturing plant shall have 10 heavy oil processing equipments for residue hydro-treating, heavy oil catalytic and gas fractionation etc. and 7 chemical processing equipments for production of styrene, polypropylene, methyl methacrylate, poly(methyl methacrylate), isopropanol, k-resin etc.

The Directors consider that the Acquisition is in line with the strategic development of the Group and can bring long-term and strategic benefits to the Company. The Directors expect that the acquisition of Beibuwan Energy shall have synergy effect with the Group's proposed investments in other petrochemical projects in Guangxi. Together with the complimentary advantages of having large-scale petrochemical projects of China National Petroleum Corporation, and preferential policies for China-ASEAN Free Trade Area, in Qinzhou, Guangxi, it is believed that the acquisition of Beibuwan Energy shall lay a solid foundation and good operating conditions for the Group's long-term development of petrochemical business in Guangxi.

OIL AND GAS BUSINESS

The oil and gas sector of the Group consists of Madagascar project, Egypt project and Tunisia project.

Madagascar project is owned by Madagascar Northern Petroleum Company Limited, a wholly-owned subsidiary of the Group, which owns 100% of the exploration, exploitation and operation rights as well as the profit sharing right of Madagascar Oilfield Block 2101. Madagascar Northern Petroleum Company Limited has entered into the Exploration, Exploitation and Oil and Gas Production Sharing Contract (the "Profit Sharing Right") with the National Office for Mining and Strategic Industries ("OMNIS"), in respect of Madagascar Oilfield Block 2101, an onshore site with total area of 10,400 square kilometers in the northern part of Madagascar. Madagascar Northern Petroleum Company Limited owns 100% of the exploration, exploitation and operations rights as well as the Profit Sharing Right of Madagascar Oilfield Block 2101. Pursuant to the Exploration, Exploitation and Oil and Gas Production Sharing Contract and depending on the rate of liquid petroleum production of Madagascar Oilfield Block 2101, Madagascar Northern Petroleum Company Limited will share the remaining petroleum profit after government royalty and recovery of petroleum costs according to the sharing ratios in the range of 40% to 72.5% as set out in the Profit Sharing Right.

OIL AND GAS BUSINESS — continued

Regarding the Egypt oil and gas exploration business, the Group has drilled three wells in Block 2 and has found high level of gas and existence of crude oil in the southern part of the block. All the financial obligations required under the eight-year concession agreement in relation to the West Esh El Mallaha (the "WEEM") area were met but the Group is obliged to drill four more wells by September 2014. Given the continual unrest in Egypt, the Group has decided to withhold further investment in Egypt but will choose an appropriate time to further invest.

Due to the fact that the Group has put the further investment on hold, the concession right of WEEM area has expired in March 2014. The Group will submit further application to the relevant authority in Egypt and is in the negotiation with Egyptian business partners for the extension of the aforesaid concession right.

The interest of the Group in the right of the Ksar Hadada Permit, which was granted by the Government of Tunisia expired on 19 April 2014.

MINERAL MINING BUSINESS

The Mineral Mining sector of the Group is operated through Zhen Hua Company Limited, a 60%-owned subsidiary of the Group, which owns 100% interest in Kenya Mine 253 and Kenya Mine 341. Zhen Hua Company Limited is a company incorporated in Kenya with limited liability on 5 October 2005 and is principally engaged in the exploration, exploitation and production of minerals. It owns 100% interest in the rights granted under the Licence 253 in respect of Kenya Mine 253, an area of approximately 1,056 square kilometers situated in Kitui District Eastern Province, Kenya, and the Licence 341 in respect of Kenya Mine 341, an area of approximately 417 square kilometers situated in Nandi County, Kenya. As at the date of the Acquisition Agreement, Zhen Hua Company Limited was owned as to 65% by Mr. Li Rong Jia and 35% by one local person in Kenya, who are third parties independent of the Company and connected persons of the Company.

On 15 April 2011, the Commissioner granted the Licence 253 to the Zhen Hua Company Limited. Pursuant to the Licence 253 and relevant provisions of the Mining Act of Kenya, Zhen Hua Company Limited is authorized to prospect, explore and mine industrial minerals (including but not limited to copper) in Kenya Mine 253 for a term of one year from 15 April 2011, subject to approval by the Commissioner for renewal. The Licence 253 has been renewed annually by Zhen Hua Company Limited and the latest expiry date is 14 April 2015.

On 3 January 2013, the Commissioner granted the License 341 to Zhen Hua Company Limited for prospecting and exploration of gold, iron ore and non-precious minerals in Kenya Mine 341 for a term of two years from 3 January 2013, subject to approval by the Commissioner for renewal.

After the implementation of the exploration works organized by Zhen Hua Company Limited, it was discovered that there is a large volume of ore zone in Kenya Mine 253 which has a promising copper content. Zhen Hua Company Limited has obtained certain ore from Kenya Mine 253 and such ore has a copper content of 5.29%. Zhen Hua Company Limited has already sold 60 tons of the ore to a corporation in China. The acquisition was completed on 26 August 2013.

FINANCIAL BUSINESS

The revenue of financial business of the Group generated from securities, futures and options broking business, underwriting commission, advisory for financial management business and interest income from securities margin loan portfolio.

The slight decrease in overall revenue was mainly attributable to decrease in commission and brokerage income. The major reason was due to comparatively weaker performance and higher volatility of stock market noted in the first half year of 2014 given by the uncertainty of China economy and US monetary policy. Therefore, most retail investors kept sidelined and the retail participation remained limited.

PROSPECT

From a long term perspective, China's economic transformation has just begun. The Company is cautiously optimistic about the future and domestic demand recovery is expected to pick up again. The Company will actively react to it. Currently, the Company is focusing on the development of the new projects acquired. Leveraging the potential of these projects and the extensive experience of the management, we believe we can capture the enormous opportunities provided by the domestic demand recovery for the natural resources and petrochemicals in the future and bring value to our shareholders.

CORPORATE GOVERNANCE

The Company is aware of the importance that complying with the relevant statutory and regulatory requirements and maintaining good corporate governance standards are important to the effective and efficient operation of the Company. The Company has, therefore, adopted and implemented relevant measures to ensure that the relevant statutory and regulatory requirements are complied with and that a high standard of corporate governance practices is maintained.

In the opinion of the Directors, the Company has complied with the Code on Corporate Governance Practices (the "Code"), as set out in Appendix 14 of the Listing Rules, throughout the accounting period covered by the interim report except for the deviation from code provision A.4.2. of the Code which every Director, including those appointed for a specific term, should be subject to retirement by rotation at least once every three years. However, according to Bye-laws of the Company, the Chairman or Managing Director are not subject to retirement by rotation or taken into account on determining the number of Directors to retire. As continuation is a key factor to the successful implementation of any long-term business plans, the Board believes that the roles of Chairman and Managing Director provides the Group with strong and consistent leadership and allow more effective planning and execution of long-term business strategies, that the present arrangement is most beneficial to the Company and the shareholders as a whole.

LIQUIDITY, FINANCIAL RESOURCES AND FUNDING

As at 30 June 2014, the Group had shareholders' funds of approximately HK$365,599,000 (31 December 2013: HK$262,820,000). The net current assets of the Group were HK$173,841,000 (31 December 2013: HK$243,189,000), which consisted of current assets of HK$433,030,000 (31 December 2013: HK$430,628,000) and current liabilities of HK$259,189,000 (31 December 2013: HK$187,439,000), representing a current ratio of approximately 1.67 (31 December 2013: 2.30).

The Group's capital expenditure, daily operations and investment are mainly funded by cash generated from its operations, financial institutions and equity financing. During the period, the Group obtained short-term bank borrowings which is mainly facilitating the margin to client for the application of Initial Public Offering and daily operations and investments. As at 30 June 2014, the Group has cash and cash equivalent (excluding the pledged fixed deposits of general accounts) of HK$70,129,000 (31 December 2013: HK$177,839,000).

EXCHANGE RATE RISK

The Group undertakes certain operating transactions in foreign currencies, which expose the Group to foreign currency risk, mainly to the risk of fluctuations in the Hong Kong dollar and U.S. dollar against RMB. We have not used any derivative contracts to hedge against its exposure to currency risk. The management manages the currency risk by closely monitoring the movement of the foreign currency rates and considering hedging significant foreign currency exposure should such need arise.

CONTINGENT LIABILITIES

The Company has given guarantee to bank in respect of the securities margin financing facilities granted to subsidiary. As at 30 June 2014, no such facilities were utilised by the subsidiary to facilitate daily operation (31 December 2013: nil).

CHARGE ON ASSETS

The Group held banking facilities from various banks as at 30 June 2014. The Group's banking facilities were secured by guarantees given by the Group's bank deposits and the Company.

As at 30 June 2014, bank deposits amounting to approximately HK$7,549,000 (31 December 2013: HK$7,543,000) were pledged to secure banking facilities granted to a subsidiary.

CAPITAL STRUCTURE

As at 30 June 2014, the total number of issued ordinary shares of the Company was 1,514,778,000 of HK$0.10 each (31 December 2013: 1,488,104,000 shares of HK$0.10 each).

SHARES PLACEMENT

Pursuant to 2 subscription agreements dated 21 November 2013 entered into between Mr. Chen Weiwen, Mr. Fan Chun Sing ("Subscribers") and the Company, Subscribers subscribed for 32,000,000 new shares of HK$0.10 in the Company at a price of HK$1.42 per share. The issue price of HK$1.42 per share represents a discount of approximately 8.97% to the closing price of HK$1.56 per share as quoted on the Stock Exchange on 21 November 2013. These new shares were issued under the general mandate granted to the Directors at the annual general meeting of the Company held on 27 June 2013. All the issued shares rank pari passu in all respects with other shares in issue. Details of the subscription have been disclosed in the announcement dated on 21 November 2013.

The net proceeds raised from the issue of shares amounted to approximately HK$45,240,000, of which approximately HK$2,840,000 was intended to be used for general working capital while the remaining balance of approximately HK$42,400,000 was intended to be used for funding the proposed investments on petrochemical business of the Group, including but not limited to subscription for 51% equity interest of Guangxi Qinzhou Hengyuan Petrochemical Co., Ltd. by way of capital injection and the acquisition of 51% equity interest in each of Guangxi Chenxi Gas Co., Ltd. and Beihai Tianxiang Aviation Oil Storage and Transportation Co., Ltd..

However, since the above proposed investment projects were terminated on March 2014, the amount of HK$42,400,000 was subsequently used for funding another petrochemical project by acquisition of 65% equity interest in Beibuwan Energy. The details of this new petrochemical project are disclosed in the paragraph of "Petrochemical Business" in the Management Discussion and Analysis.

EXERCISE OF SHARE OPTIONS

On 1 August 2013, Hoifu Mineral Resources Holdings Limited, a wholly-owned subsidiary of the Group, entered into the Acquisition Agreement with Mr. Li Rong Jia for the acquisition of 60% equity interest in Zhen Hua Company Limited, at a consideration comprising cash payment of HK$1 and the option right, which entitles the holder to subscribe up to 30,000,000 Option Shares of the Company at an initial exercise price of HK$1.38 per Option Share. The details of such acquisition have been disclosed in "Mineral Mining Business" in the Management Discussion and Analysis.

On 14 January 2014, Mr. Li Rong Jia tendered a letter of exercise of share option in which he agreed to fully exercise 30,000,000 Shares Options issued by the Company at an exercise price of HK$1.38 per Option Share. The total number of 30,000,000 new shares was issued on 20 January 2014 and the gross proceeds were amounted to HK$41,400,000. All the issued shares rank pari passu in all respects with other shares in issue.

ISSUE OF CONSIDERATION SHARES

During the six months ended 30 June 2014, the Group acquired 65% equity interest in Beibuwan Yuchai Energy Chemical Co., Ltd at a consideration of approximately RMB128,172,000 (equivalent to approximately HK$160,112,000), of which approximately RMB97,672,000 settled by cash and approximately RMB30,500,000 was settled by the issue of 19,426,624 new shares of HK$0.10 in the Company at a price of HK$2 per share. All the issued shares rank pari passu in all respects with other shares in issue.

The details of the acquisition have been disclosed in "Petrochemical Business" in the Management Discussion and Analysis, and the Company's announcement dated 4 March 2014 and the Company's circular dated 28 February 2014.

HUMAN RESOURCES

As at 30 June 2014, the Group employed a total of 105 staff (2013: 80) of which 28 were commission based (2013: 27) and the total related staff cost amounted to HK$16,187,000 (2013: HK$13,946,000). The Group's long term success rests primarily on the total integration of the company core value with the basic staff interest. In order to attract and retain high caliber staff, the Group provides competitive salary package and other benefits including mandatory provident fund, medical schemes and bonus. The future staff costs of the sales will be more directly linked to the performance of business turnover and profit. The Group maintained organic overhead expenses to support the basic operation and dynamic expansion of its business enabling the Group to respond flexibly with the changes of business environment.

INTERIM DIVIDEND

The Board does not recommend payment of any interim dividend for the year ended 30 June 2014 (2013: Nil).

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

During the six months ended 30 June 2014, the Company has repurchased 22,752,000 shares from the market at a share price range from HK$1.00 to HK$1.88 with total considerations amounted to HK$36,784,820. The details of repurchase of the Company's shares have been disclosed in the note 16(c) of the condensed consolidated financial statements.

MODEL CODE FOR SECURITIES TRANSACTIONS BY DIRECTORS

During the six month period ended 30 June 2014, the Company has adopted the Model Code under Appendix 10 to the Listing Rules as its code of conduct regarding Directors' securities transaction. All Directors of the Company have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code and the Code during the period under review.

AUDIT COMMITTEE

The audit committee of the Company (the "Audit Committee") is composed of all of its independent non-executive Directors, namely Messrs. Chen Wei-Ming Eric, Kwan Wang Wai Alan and Ng Chi Kin David. The principal duties of the Audit Committee are to review, together with management and the Company's external auditor, the accounting principles and practices adopted by the Company and discuss internal controls and financial reporting matters.

REMUNERATION COMMITTEE

The remuneration committee of the Company (the "Remuneration Committee") is composed of three Directors, namely Messrs. Chui Say Hoe, Chen Wei-Ming Eric and Ng Chi Kin David. The principal functions of the Remuneration Committee include determining the policy for the remuneration of executive directors, assessing performance of executive directors and approving the terms of executive directors' service contracts; making recommendations to the Board on the Company's policy and structure for all remuneration of directors and senior management and on the establishment of a formal and transparent procedure for developing policy on such remuneration and to place recommendations before the Board concerning the total remuneration and/or benefits granted to the Directors from time to time.

NOMINATON COMMITTEE

The nomination committee of the Company (the "Nomination Committee") is composed of three Directors, namely Messrs. Hui Chi Ming, Chen Wei-Ming Eric and Ng Chi Kin David. The principal functions of the Nomination Committee include reviewing the structure, size and composition of the Board, making recommendations on any proposed changes to the Board to complement the Company's corporate strategy, identifying and nominating qualified individuals for appointment as additional directors or to fill Board vacancies as and when they arise.

PUBLICATION OF INTERIM RESULTS ANNOUNCEMENT AND INTERIM REPORT

The interim results announcement is published on the websites of the Company at www.hoifuenergy.com under the section "Announcement" of Corporate Information and Hong Kong Exchanges and Clearing Limited at www.hkex.com.hk "Latest Listed Company Information". The 2014 interim report will be dispatched to shareholders of the Company and available on the above websites in due course.

By Order of the Board
Hoifu Energy Group Limited
Dr. Hui Chi Ming, G.B.S., J.P.
Chairman

Hong Kong, 27 August 2014

As at the date of this announcement, the Honorary Chairman and Senior Consultant of the Company is Dr. Yukio Hatoyama; the Board comprises five executive Directors, namely, Dr. Hui Chi Ming, G.B.S., J.P., Mr. Neil Bush, Dr. Chui Say Hoe, Mr. Lam Kwok Hing and Mr. Nam Kwok Lun; and three independent non-executive Directors, namely, Mr. Chen Weiming, Eric, Mr. Kwan Wang Wai, Alan and Mr. Ng Chi Kin, David.