

# SHUN CHEONG HOLDINGS LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 650

INTERIM REPORT 2016

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# CORPORATE INFORMATION

## 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

CHEN Zhiwu

SHI Cen

CHAU Shing Yim David

## AUDIT COMMITTEE

CHAU Shing Yim David (*Chairman*)

SHI Cen

LIN Dongliang

## REMUNERATION COMMITTEE

CHAU Shing Yim David (*Chairman*)

CHEN Zhiwu

SHONG Hugo

## NOMINATION COMMITTEE

CHEN Zhiwu (*Chairman*)

SHI Cen

WANG Jingbo

## JOINT COMPANY SECRETARIES

TAN Jue

KU Sau Shan Lawrence James

## PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited

Industrial and Commercial Bank of China,

East Ujimqin Banner Branch

Bank of China, Xilinhot Business Office

China Construction Bank, Xilinhot Financial Street Branch

## PRINCIPAL SHARE REGISTRARS AND TRANSFER OFFICE

Butterfield Fulcrum Group (Bermuda) Limited

26 Burnaby Street

Hamilton HM11

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

Canon's Court

22 Victoria Street

Hamilton HM12

Bermuda

## PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 2302, Wing On Centre

111 Connaught Road Central

Hong Kong

## AUDITORS

KPMG

8th Floor, Prince's Building

Central, Hong Kong

GPO Box 50, Hong Kong

## STOCK CODE

SEHK: 650

## WEBSITE

<http://www.irasia.com/listco/hk/shuncheong>

# FINANCIAL SUMMARY

	<b>Six months ended 30 September</b>	
	<b>2016</b> <b>HK\$'000</b> <b>(Unaudited)</b>	2015 HK\$'000 (Unaudited) (Restated)
Revenue	<b>34,038</b>	68,364
Gross (loss)/profit	<b>(13,571)</b>	129
EBITDA <i>(Note)</i>	<b>(368,287)</b>	12,024
Adjusted EBITDA <i>(Note)</i>	<b>(7,667)</b>	12,024
Loss for the period	<b>(399,448)</b>	(19,663)
Basic and diluted loss per share (HK\$ per share)	<b>(0.33)</b>	(0.02)
	<b>As at</b> <b>30 September</b> <b>2016</b> <b>HK\$'000</b> <b>(Unaudited)</b>	As at 31 March 2016 HK\$'000 (Unaudited) (Restated)
Property, plant and equipment	<b>532,943</b>	571,857
Cash and cash equivalents	<b>537,940</b>	15,266
Total assets	<b>2,942,127</b>	779,980
Total equity	<b>2,152,344</b>	313,551

*Note:*

Adjusted EBITDA refers to EBITDA adjusted to exclude non-recurring items, including listing expense and related transaction costs. The significant decrease in EBITDA was primarily attributable to (i) the recognition of significant listing expense of approximately HK\$294.4 million and related transaction costs of approximately HK\$66.2 million; and (ii) the decrease in crude oil prices and net sales volume.

The listing expense is a notional expense without any impact on the Group's net assets and cash flow. Please refer to Note 20(a) to the unaudited interim financial report for further details.

# OPERATING SUMMARY

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
Gross production volume ( <i>barrels</i> )	<b>141,145</b>	222,311
Gross sales volume ( <i>barrels</i> )	<b>141,749</b>	217,758
Net sales volume ( <i>barrels</i> )	<b>113,400</b>	174,207
Average unit selling price ( <i>HK\$ per barrel</i> )	<b>300</b>	392
Average daily gross production volume ( <i>barrels</i> )	<b>784</b>	1,235
Average unit production cost before depreciation and amortisation ( <i>HK\$ per barrel</i> )	<b>196</b>	192
Average unit production cost ( <i>HK\$ per barrel</i> )	<b>335</b>	320
		<b>Total number of wells as at 30 September 2016 Block 212</b>
Oil producers		90
Water injectors		23
Bailing wells		14
Dry holes		11
<b>Total number of wells</b>		<b>138</b>

*Note:*

The above information relates to Block 212. As at 30 September 2016, no material exploration and drilling work has been carried out in Block 378.

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW

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

On 29 July 2016 (the "Completion Date"), the Transfer and the Transactions (as defined in Shun Cheong Holdings Limited (the "Company")'s circular dated 29 June 2016 (the "Circular")) (collectively the "Reverse Takeover Transaction") was completed. The Company, together with its subsidiaries (the "Group")'s principal activities changed from hotel and restaurant operations in the People's Republic of China (the "PRC") to the exploration, development and production of crude oil in the PRC.

Although the Reverse Takeover Transaction has been structured such that the Company acquired the entire equity interest of 錫林郭勒盟宏博礦業開發有限公司 (Xilin Gol League Hongbo Mining Development Co., Ltd.\*) ("Hongbo Mining"), the deemed former shareholders of Hongbo Mining became the majority shareholders of the combined group as a result. Accordingly, the consolidated interim financial information of the Company has been presented as a continuation of the financial information of Hongbo Mining, such that:

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

Hongbo Mining's financial statements for the year ended 31 December 2015 are included in Appendix III to the Circular.

In addition, as the Company divested its original business as part of the Reverse Takeover Transaction, the overall transaction does not constitute a business combination in accordance with HKFRS 3 *Business Combinations*. Instead, Hongbo Mining was deemed to have issued shares to acquire the identifiable net liabilities and the listing status of the Company in accordance with HKFRS 2 *Share-based Payment*. Consequently, the difference in the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of the Company's identifiable net liabilities has been accounted for as payment for a service of a stock exchange listing for shares, recognised in profit or loss during the period.

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

In the first half of the 2016 financial year ("FY2016"), the upstream oil and gas industry experienced a substantial business cyclical downturn. The monthly average Brent Crude spot price for the first half of FY2016 was US\$46 (equivalent to approximately HK\$357) per barrel, which was at an industry low in the past ten years. As a result of the depressed oil prices and economic fluctuation, the Group's oil production volume decreased to approximately 141,145 barrels by approximately 36.5%; gross and net oil sales volume decreased to approximately 141,749 barrels and 113,400 barrels, respectively, by approximately 34.9%, and gross and net revenue decreased to approximately HK\$42.5 million and HK\$34.0 million, respectively, by approximately 50.2%, compared with the first half of the 2015 financial year.

In response to the decline in selling prices, the Group has actively adopted well control measures to stable the oil production and build up reserves during the period. Furthermore, a portion of the existing wells of the Group have entered natural production decline cycle, and thus the decline in production is considered a normal phenomenon. It is also important to note that the oil price rebounded from June 2016. In view of the optimistic oil price trend and after completion of the Subscription (as defined below), the Group drilled 3 new wells and fractured 13 producing wells towards the end of the first half of FY2016. Although the current daily production remained affected by the drop in oil prices and natural production decline correspondingly, a production boost is expected after these new measures have come into operation for a few months.

\* For identification purpose only

# MANAGEMENT DISCUSSION AND ANALYSIS

## BUSINESS REVIEW (CONTINUED)

### • Use of proceeds from the Subscription and the Convertible Note Subscription

As described in the Circular and the Company's announcement dated 29 July 2016 (the "Announcement"), on 29 July 2016, the Company completed, among others, the following transactions:

1. a subscription of certain ordinary shares and preferred shares issued by the Company to Titan Gas Technology Investment Limited ("Titan Gas") and other subscribers (the "Subscription"); and
2. a subscription of convertible note issued by the Company to League Way Ltd. (the "CN Subscription").

The following table summarises the proposed use of proceeds and the actual use of proceeds available from the Subscription and the CN Subscription:

Transaction	Gross proceeds (HK\$ million)	Amount received (HK\$ million)	Amount receivable (HK\$ million)	Proposed use of proceeds	Actual use of proceeds
Subscription	2,690	983	1,707	<ul style="list-style-type: none"> <li>— approximately HK\$60 million for the payment of the transaction expenses;</li> <li>— approximately HK\$665 million for the payment of the consideration for the acquisition of the entire equity interest of Hongbo Mining (the "Acquisition");</li> <li>— approximately HK\$400 million to finance the repayment of Hongbo Mining's payables and borrowings;</li> <li>— approximately HK\$800 million to finance the development plan of the currently explored areas in Block 212 in Inner Mongolia ("Block 212");</li> <li>— approximately HK\$450 million for exploration and development of other areas in Block 212;</li> <li>— approximately HK\$115 million to finance the operating expenses of Hongbo Mining as well as the restructured Group; and</li> <li>— approximately HK\$200 million for expanding the business of the Group by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects.</li> </ul>	<ul style="list-style-type: none"> <li>— approximately HK\$63 million was used to settle the payment of the transaction expenses;</li> <li>— approximately HK\$652 million was used to settle the payment for the Acquisition; and</li> <li>— approximately HK\$20 million was used for the development work in Block 212 (Note).</li> </ul>

# 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 (HK\$ million)	Amount receivable (HK\$ million)	Proposed use of proceeds	Actual use of proceeds
<b>CN Subscription</b>	250 (being the principal amount of the convertible note)	250	Nil	<ul style="list-style-type: none"> <li>— approximately HK\$200 million to expand the restructured Group's business by acquiring other oil companies and the further exploration, development and production of the other newly acquired oil and gas projects; and</li> <li>— approximately HK\$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the restructured Group.</li> </ul>	— approximately HK\$1 million was used for the general working capital of the restructured Group.

*Note:*

Hongbo Mining received HK\$47 million from the Company but has not yet utilised any as at 30 September 2016. Hongbo Mining carried out development work in Block 212 and incurred a total cost of approximately HK\$20 million for the six months ended 30 September 2016, but no cash payments had been made up to 30 September 2016.

## OUTLOOK

Oil price rebounded after June 2016, with the average price of the Brent Crude for October and November 2016 reached approximately US\$50 (equivalent to approximately HK\$388) and approximately US\$47 (equivalent to approximately HK\$365) per barrel, respectively, with continued volatile swings, given concerns on the global crude oil oversupply. The market generally expects that mid and long term oil price to recover gradually.

In the first half of FY2016, the Group achieved a major breakthrough on the newly drilled Y9-1 well, which reaches a daily high production of 156 barrels per day on the well test stage and is one of the highest daily production wells in Block 212. This remarkable progress provides a solid foundation for further development in the block. The Y9-1 well is located at the boundary of Unit 2 and Unit 19 and its high production volume may reflect potential new underground reserves, pending further production and geographical information for further analysis. The Group will first study the production statistics of the Y9-1 well and evaluate the impact on the whole development plan for new wells drilling. This has temporarily affected the drilling plan of the Group in 2016, but the Group will follow up, expedite and adhere to the general development plan in 2017. The Group will adopt a stable output strategy, prepare to invest a large amount of capital expenditure for further drilling and fracturing plan, based on the international oil market trend.

In view of the long term oil price recovery, the Group is also actively exploring appropriate potential acquisition targets overseas. Making strategic acquisitions of oil assets overseas is an important driver for growth and will greatly enhance shareholders' value. A counter-cyclical acquisition may provide a great opportunity to access world-class assets at a reasonable price. The board of directors of the Company (the "Board") believes the recent relatively low crude oil commodity price offers investors an attractive risk/return profile and diversification opportunities. The Group considers that there are many potential upstream oil assets in North America, especially in Eagle Ford shale, which have large oil reserves and could help provide the Group with a more diversified and balanced asset portfolio. The criteria relevant when selecting and evaluating future acquisition targets have already been disclosed in the Circular and the Group will continue to adopt the same strategy.

On 21 November 2016 (local time in Houston, Texas, the United States of America), the Company entered into an assets purchase agreement ("APA") for the acquisition of certain oil and gas assets in the Eagle Ford region of South Texas, the United States of America. Please refer to "Subsequent Event" for further details.



# MANAGEMENT DISCUSSION AND ANALYSIS

## SUMMARY OF EXPLORATION, DEVELOPMENT AND MINING ACTIVITIES

Under the exploration and production cooperation contract ("EPCC") entered into between Hongbo Mining and 陝西延長石油（集團）有限責任公司（延長油礦管理局）(Shaanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau\*)) ("Yanchang"), Yanchang (as the mineral right owner) and Hongbo Mining (as the operator) cooperate to explore for oil in Block 212 and Block 378 which covers a region of approximately 591 km<sup>2</sup> in East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia of the PRC (the "Area"); the crude oil produced from the Area, which belongs to Yanchang, is sold by Hongbo Mining (as entrusted by Yanchang) to the customer designated by Yanchang; and Hongbo Mining and Yanchang are entitled to share 80% and 20% of the sale proceeds (net of any sales related taxes). Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted to it by Ministry of Land and Resources of the PRC ("MOLR") in 2008 (in respect of Block 378) and 2009 (in respect of Block 212). The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2017, and the current exploration permit of Yanchang in respect of Block 378 will expire on 9 November 2017. Both exploration permits are renewable after expiry for terms of two years each time.

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

The Group commences the development plan after completion of the Subscription and the Acquisition. The summary of exploration, development and mining expenditures incurred in the Block 212 is as follows:

	Summary of expenditures incurred for the six months ended 30 September			
	2016		2015	
	Number	Cost (HK\$'000) (Unaudited)	Number	Cost (HK\$'000) (Unaudited) (Restated)
<b>Wells drilled during the period</b>				
Dry holes	–	–	–	–
Oil producers	3	10,845	–	–
Total	3	10,845	–	–
<b>Fracturing workover</b>	13	9,193	20	15,750

Up to 30 September 2016, no material exploration work has been undertaken for Block 378, and no reserves have been estimated. The Group is still planning for the exploration work in the Block 378.

## MAJOR RISK MANAGEMENT

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

### Price risk

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## MAJOR RISK MANAGEMENT (CONTINUED)

### Currency risk

The majority of the Group's operation sales, production and other expenses in China are in RMB. The RMB is not a freely convertible currency and is regulated by the PRC government. Limitations on foreign exchange transactions imposed by the PRC government could cause future exchange rates to vary significantly from current or historical exchange rates.

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

### Liquidity risk

The liquidity of the Group is primarily dependent on its ability to obtain sufficient financing from its bankers and shareholders. The Group manages liquidity risk by considering historical cash requirements as well as other key factors, including sufficient financing from its bankers and shareholders.

### Interest rate risk

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

## REVIEW OF OPERATING RESULTS

### Comparing six months ended 30 September 2016 to six months ended 30 September 2015

#### Revenue

The Group's revenue decreased by approximately HK\$34.3 million, or approximately 50.2%, from approximately HK\$68.4 million for the six months ended 30 September 2015 to approximately HK\$34.0 million for the six months ended 30 September 2016.

The Group's crude oil is priced mainly with reference to international market prices, including Brent Crude and Daqing crude oil, etc. The decrease was mainly due to the decrease in crude oil prices and the Group's net sales volume. The average unit selling price of the Group's crude oil decreased to approximately HK\$300 per barrel for the six months ended 30 September 2016 from approximately HK\$392 per barrel for the six months ended 30 September 2015, which was consistent with the trend of global oil prices. The average Brent Crude for the six months ended 30 September 2016 decreased to approximately HK\$354 per barrel as compared to approximately HK\$434 per barrel for the six months ended 30 September 2015. The Group's net sales volume decreased to approximately 113,400 barrels for the six months ended 30 September 2016 from approximately 174,207 barrels for the six months ended 30 September 2015, which was mainly due to the decline of production volume as a result that Group only commenced the development plan (including new drilling work and fracturing) from the end of August 2016. For further details on the decline of the production volume, please refer to "Business Review — Review of Upstream Oil and Gas Industry and the Group's Business Operations".

#### Cost of sales

The Group's cost of sales decreased by approximately HK\$20.6 million, or approximately 30.2%, from approximately HK\$68.2 million for the six months ended 30 September 2015 to approximately HK\$47.6 million for the six months ended 30 September 2016.

The decrease was primarily attributable to (i) the decrease in depreciation of oil and gas properties, which was mainly attributable to a decreased production volume of crude oil; and (ii) the decrease in extraction costs mainly for a lower number of fracturing of the existing wells to improve/maintain crude oil production rates and lower suppliers' service charges.

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATING RESULTS (CONTINUED)

### Comparing six months ended 30 September 2016 to six months ended 30 September 2015 (Continued)

#### Gross (loss)/profit

The Group recorded gross profit of approximately HK\$0.1 million for the six months ended 30 September 2015 and gross loss of approximately HK\$13.6 million for the six months ended 30 September 2016, which was primarily driven by the decrease in the Group's average unit selling price of crude oil.

The gross profit margin of the Group was temporarily adversely affected by (i) the slight increase in the Group's average unit production cost primarily due to the decrease in production volume which led to a higher fixed cost per unit production; and (ii) the significant decrease in the Group's average unit selling price primarily due to the extreme adverse market conditions.

#### Administrative expenses

The Group's administrative expenses remained stable at approximately HK\$10.9 million and HK\$11.3 million for the six months ended 30 September 2015 and 2016, respectively.

#### Taxes other than income tax

The Group's taxes other than income tax decreased by approximately HK\$2.4 million, or approximately 49.9%, from approximately HK\$4.8 million for the six months ended 30 September 2015 to approximately HK\$2.4 million for the six months ended 30 September 2016, which was mainly due to the decrease in resources tax levied on the sale of crude oil primarily attributable to the drop of revenue.

#### Exploration expenses, including dry holes

The Group did not carry out material exploration activities during the six months ended 30 September 2016 primarily due to insufficient financial resources prior to the Completion Date.

The Group's exploration expenses decreased by approximately HK\$0.4 million, or approximately 54.5%, from approximately HK\$0.8 million for the six months ended 30 September 2015 to approximately HK\$0.4 million for the six months ended 30 September 2016, which was mainly due to the reduction of the number of staff members for exploration work.

#### Listing expense and related transaction costs

The Group recognised listing expense of approximately HK\$294.4 million for the six months ended 30 September 2016 upon the S&P Completion (as defined in the Circular) and the completion of the Transfer and the Transactions (as defined in the Circular) by applying the principles of reverse acquisition in HKFRS 3 and related transaction costs of approximately HK\$66.2 million primarily for professional services rendered in relation to the Transfer and the Transactions as well as the related general offer during the six months ended 30 September 2016.

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATING RESULTS (CONTINUED)

### Comparing six months ended 30 September 2016 to six months ended 30 September 2015 (Continued)

#### **Net finance costs**

The Group's net finance costs increased by approximately HK\$1.9 million, or approximately 41.0%, from approximately HK\$4.7 million for the six months ended 30 September 2015 to approximately HK\$6.6 million for the six months ended 30 September 2016, which was primarily due to the recognition of effective interest expense on convertible note of HK\$2.1 million.

#### **Loss before taxation**

The Group's loss before taxation significantly increased by approximately HK\$373.8 million from approximately HK\$21.0 million for the six months ended 30 September 2015 to approximately HK\$394.8 million for the six months ended 30 September 2016, which was primarily due to the cumulative effects of factors given above.

#### **Income tax**

The Group's income tax changed from a deferred tax credit of approximately HK\$1.4 million for the six months ended 30 September 2015 to a deferred tax expense of approximately HK\$4.6 million for the six months ended 30 September 2016. The change was mainly in relation to the movements of the deferred tax assets and liabilities arising from the temporary differences of the provision for abandonment, depreciation of oil and gas properties, amortisation of intangible assets and accrued expenses.

#### **Loss for the period**

The Group's loss for the period significantly increased by approximately HK\$379.8 million from approximately HK\$19.7 million for the six months ended 30 September 2015 to approximately HK\$399.4 million for the six months ended 30 September 2016, which was primarily due to the cumulative effects of factors given above.

#### **EBITDA and adjusted EBITDA**

The management prepared a reconciliation of EBITDA and adjusted EBITDA to loss before taxation, our most directly comparable financial performance calculated and presented in accordance with HKFRS. EBITDA refers to earnings before interest expenses, income tax, depreciation and amortisation. Adjusted EBITDA refers to EBITDA adjusted to exclude non-recurring items, including listing expense and related transaction costs.

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## REVIEW OF OPERATING RESULTS (CONTINUED)

Comparing six months ended 30 September 2016 to six months ended 30 September 2015 (Continued)

### EBITDA and adjusted EBITDA (Continued)

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

	Six months ended 30 September	
	2016	2015
	HK\$'000	HK\$'000
	(Unaudited)	(Unaudited) (Restated)
Loss before taxation	(394,825)	(21,016)
Add: Interest expenses	5,494	2,998
Add: Depreciation and amortisation	21,044	30,042
<b>EBITDA</b>	<b>(368,287)</b>	12,024
Add: Listing expense and related transaction costs	360,620	–
<b>Adjusted EBITDA</b>	<b>(7,667)</b>	12,024

The Group's EBITDA changed from a profit of approximately HK\$12.0 million for the six months ended 30 September 2015 to a loss of approximately HK\$368.3 million for the six months ended 30 September 2016. The decrease was primarily attributable to (i) the recognition of significant listing expense and related transaction costs; and (ii) the decrease in crude oil prices and net sales volume.

The Group's adjusted EBITDA changed from a profit of approximately HK\$12.0 million for the six months ended 30 September 2015 to a loss of approximately HK\$7.7 million for the six months ended 30 September 2016, which was primarily attributable to the decrease in crude oil prices and net sales volume.

## LIQUIDITY AND FINANCIAL RESOURCES

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

The Group's cash and cash equivalents are mostly denominated in HK\$ and RMB. As at 30 September 2016, the Group had unpledged cash and bank deposits of approximately HK\$537.9 million (31 March 2016 (restated): HK\$15.3 million).

As at 30 September 2016, the Group had outstanding unsecured six-month interest-bearing entrusted loans of approximately HK\$104.5 million (31 March 2016 (restated): Third party loan of approximately HK\$84.0 million and entrusted loan of approximately HK\$24.0 million), which were all denominated in RMB. These short term loans carried fixed interest rate of 4.8% per annum (31 March 2016 (restated): floating interest rate of 1.1 times of the prevailing market interest rate published by People's Bank of China for the third party loan and fixed interest rate of 4.8% per annum for the entrusted loan).

As at 30 September 2016, the Group had a convertible note with carrying amount of approximately HK\$213.3 million (31 March 2016 (restated): Nil). The principal amount of the convertible note is HK\$250,000,000 pursuant to the CN Subscription Agreement, with the maturity date at the third anniversary of the date of the CN Subscription Completion (i.e. 29 July 2016) and that no interest shall be payable on the entire CN Principal Amount (as defined in the Circular).

# MANAGEMENT DISCUSSION AND ANALYSIS

## LIQUIDITY AND FINANCIAL RESOURCES (CONTINUED)

As at 30 September 2016, the Group had convertible bonds with carrying amount of approximately HK\$114.8 million (31 March 2016 (restated): Nil). The aggregate principal amount of the convertible bonds is HK\$120,000,000, with the maturity date of 30 April 2018 and payable at an interest rate of 1% per annum.

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

As at 30 September 2016, the Group's gearing ratio (ratio of the sum of total bank and other borrowings, convertible bonds and convertible note to the total assets) was approximately 14.7% (31 March 2016 (restated): 13.8%).

## CHARGES ON GROUP ASSETS

As at 30 September 2016, the Group did not have any charges on its assets (31 March 2016 (restated): Nil).

## ACQUISITIONS AND DISPOSALS (INCLUDING ANY SIGNIFICANT INVESTMENTS)

Reference is made to the Circular and the Announcement.

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

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

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

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

The Group did not hold any significant investment during the six months ended 30 September 2016.

## CONTINGENT LIABILITIES

Hongbo Mining has been involved in a legal dispute with 北京昊湘鈺技術開發有限公司 (Beijing Jiongxiangyu Technology Development Co. Ltd.\*) (the "Claimant"). The dispute between Hongbo Mining and the Claimant is currently pending a rehearing by the Supreme People's Court and there was no development of this dispute during the six months ended 30 September 2016.

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

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

# MANAGEMENT DISCUSSION AND ANALYSIS

## COMMITMENTS

### Capital commitments

As at 30 September 2016, the Group had capital commitments of approximately HK\$5.3 million (31 March 2016 (restated): HK\$6.1 million) contracted but not provided for the acquisition of property, plant and equipment.

### Operating lease commitments

As at 30 September 2016, the Group had operating lease commitment as lessee of approximately HK\$1.3 million (31 March 2016 (restated): HK\$0.7 million).

## INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2016.

## EMPLOYEES

As at 30 September 2016, the Group had 76 (31 March 2016 (restated): 70) employees in Hong Kong and the PRC. For the six months ended 30 September 2016, the total staff costs (including the directors' emoluments) amounted to approximately HK\$7.1 million (Six months ended 30 September 2015 (restated): HK\$7.8 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

The Audit Committee currently comprises two independent non-executive Directors, namely, Mr. Chau Shing Yim David (Chairman) and Mr. Shi Cen and one non-executive Director, namely, Mr. Lin Dongliang. The Audit Committee has reviewed with management the accounting principles and practices adopted by the Company and discussed the internal controls and financial reporting matters including a review of the unaudited interim report for the six months ended 30 September 2016.

## SUBSEQUENT EVENT

On 21 November 2016 (local time in Houston, Texas, the United States of America), the Company entered into an APA with Stonegate Production Company, LLC, Stonegate Dimmit Properties, LLC and/or Dimmit/La Salle Saltwater Disposal Company, LLC (the "Stonegate Sellers"). Pursuant to the APA, the Company has conditionally agreed to acquire and the Stonegate Sellers have conditionally agreed to sell the oil and gas related assets of the Stonegate Sellers in the Eagle Ford region of South Texas, the United States of America, at a purchase price of US\$278 million (approximately HK\$2,156 million) (subject to adjustments in accordance with the APA) (the "Stonegate Acquisition"). Completion of the Stonegate Acquisition is conditional upon the satisfaction or, if applicable, waiver of certain conditions precedent set out in the APA.

For details of the Stonegate Acquisition, please refer to the announcement of the Company dated 22 November 2016 published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (<http://www.hkexnews.hk/>).

# GENERAL INFORMATION

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

As at 30 September 2016, the interests and/or short positions of the Directors or chief executives of the Company in the shares and underlying shares or debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571 of the laws of Hong Kong) (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:

### (A) Long positions in ordinary shares of the Company ("Ordinary Shares"):

Name of Director	Nature of interest	Number of Ordinary Shares	Percentage of the Company's issued shares
Wang Jingbo	Corporate	829,641,578 <i>(Note 1)</i>	51.32%
Shong Hugo	Corporate	829,641,578 <i>(Notes 1 and 2)</i>	51.32%
Lin Dongliang	Corporate Beneficial	829,641,578 12,910,000 <i>(Notes 1 and 3)</i>	51.32% 0.80%

*Note 1:* These shares are held by Titan Gas, a company which is controlled as to 100% by Titan Gas Technology Holdings Limited ("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.") ("IDG Funds"), 8.05% by Mr. Wang Jingbo ("Mr. Wang") and 6.87% by 金世旗國際控股股份有限公司 (Kingsbury International Holdings Co., Ltd.\*) ("Kingsbury"). Under the SFO, Titan Gas Holdings, Standard Gas and IDG Funds are deemed to have interest in the 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 interests in the 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.



# GENERAL INFORMATION

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

### (B) Long positions in convertible bonds of the Company:

Name of Director	Nature of interest	Number of underlying shares
Wang Jingbo	Corporate	1,440,960,208
		1,854,874,798 (Note 1)
Shong Hugo	Corporate	1,440,960,208
		1,411,505,622 (Notes 1 and 2)
Lin Dongliang	Corporate	1,440,960,208
		1,411,505,622 (Notes 1 and 3)

*Note 1:* The 1,440,960,208 underlying shares represented the new Ordinary Shares to be issued upon full conversion of convertible bonds with an aggregate principal amount of HK\$96,832,526 ("Convertible Bonds") 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.

The 1,854,874,798 underlying shares consist of (i) the 1,411,505,622 underlying shares representing the new Ordinary Shares to be issued upon full conversion of 1,411,505,622 restricted voting non-redeemable convertible preferred shares of HK\$0.01 each in the share capital of the Company ("Preferred Shares") held by Titan Gas, and (ii) the 443,369,176 underlying shares representing the new Ordinary Shares to be issued upon full conversion of 443,369,176 Preferred Shares held by Aquarius Growth Investment Limited ("Aquarius Investment"), upon full payment and subject to their terms. Aquarius Investment is accustomed to act in accordance with the instructions of, among others, Mr. Wang. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Aquarius Investment has interest.

*Note 2:* The 1,440,960,208 underlying shares represented the new Ordinary Shares to be issued upon full conversion of the Convertible Bonds held by Titan Gas at a conversion price of HK\$0.0672 per share issued by the Company.

The 1,411,505,622 underlying shares represented the new Ordinary Shares to be issued upon full conversion of 1,411,505,622 Preferred Shares held by Titan Gas upon full payment and subject to their terms.

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:* The 1,440,960,208 underlying shares represented the new Ordinary Shares to be issued upon full conversion of the Convertible Bonds held by Titan Gas at a conversion price of HK\$0.0672 per share issued by the Company.

The 1,411,505,622 underlying shares represented the new Ordinary Shares to be issued upon full conversion of 1,411,505,622 Preferred Shares held by Titan Gas upon full payment and subject to their terms.

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.

# GENERAL INFORMATION

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

### (B) Long positions in convertible bonds of the Company: (Continued)

Save as disclosed above, as at 30 September 2016, 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.

### (C) Interest in associated corporations of the Company:

#### Titan Gas Technology Holdings Limited

Name of Director	Long/short position	Capacity	Number of shares	Percentage of the associated corporation's issued voting shares
<b>Ordinary Shares: Other than pursuant to equity derivatives</b>				
Wang Jingbo	Long position	Corporate	13,000,000 <i>(Note 1)</i>	65.00%
		Beneficial	6,418,675	32.09%
Shong Hugo	Long position	Corporate	13,000,000 <i>(Notes 1 and 2)</i>	65.00%
Lin Dongliang	Long position	Corporate	13,000,000 <i>(Notes 1 and 3)</i>	65.00%
<b>Series A-1 Preferred Shares: Unlisted derivatives — Physically settled options</b>				
Wang Jingbo	Long position	Corporate	15,000,000 <i>(Note 1)</i>	75.00%
Shong Hugo	Long position	Corporate	15,000,000 <i>(Notes 1 and 2)</i>	75.00%
Lin Dongliang	Long position	Corporate	15,000,000 <i>(Notes 1 and 3)</i>	75.00%

*Note 1:* These shares are held by Standard Gas. 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, Mr. Wang is deemed to have interest in the shares in which Standard Gas has interest.

*Note 2:* Please see Note (2) of Section (A) above.

*Note 3:* Please see Note (3) of Section (A) above.

# GENERAL INFORMATION

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

### (C) Interest in associated corporations of the Company: (Continued)

#### Titan Gas Technology Investment Limited

Name of Director	Long/short position	Capacity	Number of shares	Percentage of the associated corporation's issued voting shares
<b>Ordinary Shares</b>				
Wang Jingbo	Long position	Corporate	100,000 (Note 1)	100.00%
Shong Hugo	Long position	Corporate	100,000 (Notes 1 and 2)	100.00%
Lin Dongliang	Long position	Corporate	100,000 (Notes 1 and 3)	100.00%

Note 1: These shares are held by Titan Gas Holdings, which is in turn controlled as to 35.13% by Standard Gas. Under the SFO, Standard Gas is deemed to have interest in the shares in which Titan Gas Holdings 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 interests in the shares in which Titan Gas Holdings has interest.

Note 2: Please see Note (2) of Section (A) above.

Note 3: Please see Note (3) of Section (A) above.

## DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Save as disclosed in the section headed "Directors' and chief executives' interests and short positions in shares, underlying shares and debentures of the Company or any associated corporation" above, at no time during the six months ended 30 September 2016 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 minor children, or were any such rights exercised by them; or was the Company, its holding company, or any of its subsidiaries or fellow subsidiaries a party to any arrangement to enable the Directors to acquire such rights in any other body corporate.

# GENERAL INFORMATION

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

As at 30 September 2016, the interests or short positions of the persons (other than a Director or chief executive of the Company) in the shares and underlying shares of the Company as recorded in the register of interests required to be kept by the Company under Section 336 of the SFO are as follows:

Name	Capacity/Nature of interest	Number of Ordinary Shares or underlying Ordinary Shares (Note 1)	Percentage of the Company's issued share capital
Tanisca Investments Limited (Note 3)	Beneficial owner	344,754,077 (L) (Note 2)	21.32%
Aquarius Growth Investment Limited (Note 5)	Beneficial owner	443,369,176 (L) (Note 4)	27.42%
ZHAO Ming (Note 5)	Interest of a controlled corporation	443,369,176 (L) (Note 4)	27.42%
Grand Empire Global Limited (Note 6)	Beneficial owner	166,766,230 (L) (Note 6)	10.31%
Rexwell Holdings Limited (Note 6)	Interest of a controlled corporation	166,766,230 (L) (Note 6)	10.31%
ZHANG Lu (Note 6)	Interest of controlled corporations	166,766,230 (L) (Note 6)	10.31%
League Way Ltd. (Note 7)	Beneficial owner	373,357,228 (L) (Note 7)	23.09%
SHI Jianji (Note 7)	Interest of a controlled corporation	373,357,228 (L) (Note 7)	23.09%
New Fast Investments Limited (Note 8)	Beneficial owner	241,437,675 (L) (Note 8)	14.93%
Gate Success Investments Limited (Note 8)	Interest of a controlled corporation	241,437,675 (L) (Note 8)	14.93%
YU Nan (Note 8)	Interest of controlled corporations	241,437,675 (L) (Note 8)	14.93%
Real Smart Holdings Limited (Note 9)	Beneficial owner	166,766,230 (L) (Note 9)	10.31%
True Vision Global Limited (Note 9)	Interest of a controlled corporation	166,766,230 (L) (Note 9)	10.31%
XU Sa (Note 9)	Interest of controlled corporations	166,766,230 (L) (Note 9)	10.31%
Sonic Gain Limited (Note 10)	Beneficial owner	319,820,786 (L) (Note 10)	19.78%
KO Chun Shun, Johnson (Note 10)	Interest of a controlled corporation	319,820,786 (L) (Note 10)	19.78%
True Success Global Limited (Note 11)	Beneficial owner	250,149,340 (L) (Note 11)	15.47%
KO Wing Yan, Samantha (Note 11)	Interest of a controlled corporation	250,149,340 (L) (Note 11)	15.47%
上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.*) (Note 12)	Investment manager	140,382,318 (L)	8.68%

# GENERAL INFORMATION

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS 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 share capital
華寶•境外市場投資2號系列20–6期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20–6 QDII Single Money Trust*) (Note 12)	Beneficiary of a trust	93,588,212 (L)	5.79%
華寶信託有限責任公司 (Hwabao Trust Co., Ltd.) (Note 12)	Trustee of a trust	140,382,318 (L)	8.68%
寶鋼集團有限公司 (Baosteel Group Corporation*) (Note 12)	Interest of a controlled corporation	140,382,318 (L)	8.68%
WANG Ruyuan (Note 12)	Interest of a controlled corporation	140,382,318 (L)	8.68%
Titan Gas Technology Investment Limited (Note 13)	Beneficial owner	3,682,107,408 (L)	227.75%
Titan Gas Technology Holdings Limited (Note 13)	Interest of a controlled corporation	3,682,107,408 (L)	227.75%
Standard Gas Capital Limited (Note 13)	Interest of controlled corporations	3,682,107,408 (L)	227.75%
金世旗國際控股股份有限公司 (Kingsbury International Holdings Co., Ltd.) (Note 13)	Interest of controlled corporations	3,682,107,408 (L)	227.75%
IDG-Accel China Capital GP II Associates Ltd. (Note 17)	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 15)	227.75%
IDG-Accel China Capital II Associates L.P. (Note 18)	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 17)	227.75%
IDG-Accel China Capital II L.P. (Note 18)	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 17)	227.75%
Ho Chi Sing (Note 17)	Interest of controlled corporations	3,693,607,408 (L) (Notes 13, 15, 17)	228.46%
ZHOU Quan (Note 17)	Interest of a controlled corporation	3,693,607,408 (L) (Notes 13, 15, 17)	228.46%
LUO Yuping	Interest of controlled corporations	3,682,107,408 (L) (Notes 13, 14, 18)	227.75%
ZHANG Chunhua	Interest of controlled corporations	127,681,952 (L) (Note 19)	7.90%
Rich Harvest Worldwide Ltd.	Beneficial owner	127,681,952 (L) (Note 19)	7.90%

### Notes:

- The letter "L" represents the individual's long position in the shares and the letter "S" represents the individual's short position in the shares.
- These interests in the underlying Ordinary Shares represent the derivative interests under the Convertible Bonds.
- Mr. Mo Tianquan ("Mr. Mo") has control over 100% interests of Tanisca Investments Limited and Upsky Enterprises Limited. Under the SFO, Mr. Mo is deemed to have interest in the shares in which Tanisca Investments Limited and Upsky Enterprises Limited have interest.

# GENERAL INFORMATION

## SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)

Notes: (Continued)

4. Aquarius Investment has interests in respect of 443,369,176 underlying Ordinary Shares through the derivative interests under 443,369,176 Preferred Shares.
5. Aquarius Investment is controlled as to 91% by Zhao Ming and as to 9% by Mr. Wang. Under the SFO, Zhao Ming is deemed to have interest in the shares in which Aquarius Investment has interest.
6. Grand Empire Global Limited is controlled as to 100% by Rexwell Holdings Limited and Rexwell Holdings Limited is controlled as to 100% by Zhang Lu. Under the SFO, Zhang Lu and Rexwell Holdings Limited are deemed to have interest in the shares in which Grand Empire Global Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.
7. League Way Ltd. is controlled as to 70% by Shi Jianji. Under the SFO, Shi Jianji is deemed to have interest in the shares in which League Way Ltd. has interest. It has interest in 373,357,228 underlying Ordinary Shares through derivative interests in the Convertible Note (as defined in the Circular).
8. New Fast Investments Limited is controlled as to 100% by Gate Success Investments Limited. Gate Success Investments Limited is controlled as to 100% by Yu Nan. Under the SFO, Yu Nan and Gate Success Investments Limited are deemed to have interest in the shares in which New Fast Investments Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.
9. Real Smart Holdings Limited is controlled as to 100% by True Vision Global Limited. True Vision Global Limited is controlled as to 100% by Xu Sa. Under the SFO, Xu Sa and True Vision Global Limited are deemed to have interest in the shares in which Real Smart Holdings Limited has interest. It has interest in 116,736,360 underlying Ordinary Shares through derivative interests in 116,736,360 Preferred Shares.
10. Sonic Gain Limited is owned as to 100% by Ko Chun Shun, Johnson. Under the SFO, Ko Chun Shun, Johnson is deemed to have interest in the shares in which Sonic Gain Limited has interest. It has interest in 175,104,540 underlying Ordinary Shares through derivative interests in 175,104,540 Preferred Shares.
11. True Success Global Limited is owned as to 100% by Ko Wing Yan, Samantha. Under the SFO, Ko Wing Yan, Samantha is deemed to have interest in the shares in which True Success Global Limited has interest. It has interest in 175,104,540 underlying Ordinary Shares through derivative interests in 175,104,540 Preferred Shares.
12. 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.\*) has beneficial interest in an aggregate of 140,382,318 Ordinary Shares through 華寶•境外市場投資2號系列20-6期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-6 QDII Single Money Trust\*) and 華寶•境外市場投資2號系列20-7期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-7 QDII Single Money Trust\*). Under the SFO, 華寶信託有限責任公司 (Hwabao Trust Co.,Ltd.), as the trustee of the aforesaid trusts, is deemed to have interest in an aggregate of 140,382,318 Ordinary Shares in which the aforesaid trusts have interest; Wang Ruyuan, who has control of 66% of the interests of 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.\*), is deemed to have interest in 140,382,318 Ordinary Shares in which 上海宏流投資管理有限公司 (Shanghai Trend Capital Co., Ltd.\*) has beneficial interest; 寶鋼集團有限公司 (Baosteel Group Corporation\*), which has control over 98% of the interests of 華寶信託有限責任公司 (Hwabao Trust Co., Ltd.), is deemed to have interest in 140,382,318 Ordinary Shares in which 華寶信託有限責任公司 (Hwabao Trust Co., Ltd.) has interest in the capacity of a trustee. 華寶•境外市場投資2號系列20-7期QDII單一資金信託 (Hwabao.Overseas Investment Series 2 No 20-7 QDII Single Money Trust\*) does not in itself have an interest or short position in the Company which was required to be disclosed to the Company or the Stock Exchange under the provisions of Divisions 2 and 3 of Part XV of the SFO.
13. Titan Gas is controlled as to 100% 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. Under the SFO, Titan Gas Holdings, Standard Gas, IDG Funds are deemed to have interest in 3,682,107,408 Ordinary Shares in which Titan Gas has beneficial interest. Interest in such Ordinary Shares include interest in 2,852,405,830 underlying Ordinary Shares through derivative interests in the Convertible Bonds in the principal amount of HK\$96,832,526 and the Preferred Shares that Titan Gas has agreed to subscribe for under the Subscription Agreement (as defined in the Circular).

# GENERAL INFORMATION

## **SUBSTANTIAL SHAREHOLDERS' AND OTHER PERSON'S INTERESTS AND SHORT POSITIONS IN SHARES AND UNDERLYING SHARES OF THE COMPANY (CONTINUED)**

Notes: (Continued)

14. 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. Aquarius Investment is accustomed to act in accordance with the instructions of, among others, Mr. Wang. Under the SFO, Mr. Wang is deemed to have interests in the shares in which Titan Gas or Aquarius Investment has interest on the basis set out above. The Ordinary Shares and underlying Ordinary Shares in which Mr. Wang has interest comprise 3,682,107,408 Ordinary Shares in which Titan Gas has beneficial interest (including derivative interest in 2,852,465,830 underlying Ordinary Shares) and 443,369,176 underlying Ordinary shares in which Aquarius Investment has beneficial interest.
15. The IDG Funds is under the control of its ultimate general partner, IDG-Accel Ultimate GP. Under the SFO, IDG-Accel Ultimate GP is deemed to have interest in the shares in which the IDG Funds have interest.
16. IDG-Accel China Capital II Associates L.P. has control over IDG-Accel Capital II. Under the SFO, IDG-Accel China Capital II Associates L.P. is deemed to have interest in the shares in which IDG-Accel Capital II has beneficial interest.
17. Ho Chi Shing 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 controls 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 shares in which IDG-Accel Ultimate GP has interest.
18. Kingsbury is controlled as to 74.8% by Luo Yuping. By virtue of the acting in concert arrangement referred to in Note 14, Luo Yuping is deemed to have interest in the shares in which Titan Gas Holdings has interest.
19. Rich Harvest Worldwide Ltd. is controlled as to 100% by Zhang Chunhua. Under the SFO, Zhang Chunhua is deemed to have interests in the shares in which Rich Harvest Worldwide Ltd. has interest. Interest in such Ordinary Shares include interest in 127,681,952 underlying Ordinary Shares has interest through derivative interests in 127,681,952 Preferred Shares.

Save as disclosed above, as at 30 September 2016, 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.

## **PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY**

Neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the six months ended 30 September 2016.

## **CORPORATE GOVERNANCE**

### **Compliance with the Model Code for Securities Transactions by Directors**

The Company has adopted the Model Code as set out in Appendix 10 to the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") as its own code of conduct regarding Directors' securities transactions. Having made specific enquiry of the current Directors, the current Directors confirmed that they have complied with the required standards set out in the Model Code throughout the six months ended 30 September 2016.

# GENERAL INFORMATION

## CORPORATE GOVERNANCE (CONTINUED)

### Compliance with Corporate Governance Code

In the opinion of the board of directors of the Company (the “Board”), the Company had complied with the applicable Corporate Governance Code (the “CG Code”) as set out in Appendix 14 to the Listing Rules during the six months ended 30 September 2016, except that:

1. CG Code provision A.2.1 stipulates that the roles of chairman and chief executive should be separate and should not be performed by the same individual. Mr. Wang Jingbo is both the Chairman of the Board and the Chief Executive Officer of the Company. The Board is of the opinion that such arrangement will not result in undue concentration of power and is conducive to the efficient formulation and implementation of the Company’s strategies thus allowing the Company to develop its business more effectively.
2. CG Code provision A.5.6 stipulates that the Nomination Committee (or the Board) should have a policy concerning diversity of board members (“Board Diversity Policy”). The members of the Nomination Committee considered that the current Board composition allows the Board to perform its function efficiently, and therefore the Nomination Committee did not adopt a Board Diversity Policy. After further review by the Company’s advisors, the Nomination Committee has decided to adopt a Board Diversity Policy to ensure strict compliance with the CG Code.
3. CG Code provision A.6.7 stipulates that independent non-executive directors and other non-executive directors should attend general meetings. Certain non-executive Directors and independent non-executive Directors were unable to attend the special general meeting of the Company held on 22 July 2016 due to their other business commitments.
4. CG Code provision B.1.2 stipulates that the terms of reference of the Remuneration Committee should include, as a minimum, those specific duties as set out in the CG Code. The Company has adopted the terms of reference for the Remuneration Committee under the CG Code Provision B.1.2, except that the terms of reference do not include (i) “making recommendations” to the Board on the remuneration of Directors, remuneration policy and establishment of a formal and transparent procedure for developing such policy, (ii) “approving” the management’s remuneration proposals and (iii) “approving” the compensation arrangements in connection with any loss or termination of office or appointment of executive Directors and senior management, and dismissal or removal of Directors for misconduct to ensure they are consistent with contractual terms. The Company was of the view that under the terms of reference for the Remuneration Committee, the Remuneration Committee has a duty to “review” the above matters which was sufficient to satisfy the requirement under CG Code provision B.1.2. Although not explicitly stated in the terms of reference, in practice, the Remuneration Committee has fully discharged its duties stated in CG Code provision B.1.2. After further review by the Company’s advisors, the Company has decided to adopt a revised terms of reference (which came into effect on 21 November 2016) to ensure strict compliance with the CG Code.

## NON-COMPETITION DEED

As disclosed in the Circular, each of the Controlling Shareholders (as defined in the Circular) and Lin Dongliang (together, the “Covenantors”) have entered into a Non-Competition Deed (as defined in the Circular) in favour of the Company (for itself and for the benefit of its subsidiaries). With reference to the 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 Circular).

The Company has received confirmations from each of the Covenantors on full compliance with the Non-Competition Deed for the six months ended 30 September 2016.

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 the six months ended 30 September 2016.



# CONSOLIDATED STATEMENT OF PROFIT OR LOSS

For the six months ended 30 September 2016 — unaudited

	Note	Six months ended 30 September	
		2016 HK\$'000	2015 HK\$'000 (restated) (Note 2)
<b>Revenue</b>	5	<b>34,038</b>	68,364
Cost of sales		<b>(47,609)</b>	(68,235)
<b>Gross (loss)/profit</b>		<b>(13,571)</b>	129
Administrative expenses		<b>(11,254)</b>	(10,880)
Taxes other than income tax		<b>(2,397)</b>	(4,787)
Exploration expenses, including dry holes		<b>(353)</b>	(776)
Listing expense and related transaction costs	6(b)	<b>(360,620)</b>	–
<b>Loss from operations</b>		<b>(388,195)</b>	(16,314)
Finance income		<b>15</b>	82
Finance costs	6(a)	<b>(6,645)</b>	(4,784)
Net finance costs		<b>(6,630)</b>	(4,702)
<b>Loss before taxation</b>	6	<b>(394,825)</b>	(21,016)
Income tax	7	<b>(4,623)</b>	1,353
<b>Loss for the period</b>		<b>(399,448)</b>	(19,663)
<b>Loss per share</b>	8		
Basic and diluted		<b>(HK\$0.33)</b>	(HK\$0.02)

The notes on pages 31 to 44 form part of these financial statements.

# CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the six months ended 30 September 2016 — unaudited

	<b>Six months ended 30 September</b>	
	<b>2016</b>	2015
	<b>HK\$'000</b>	HK\$'000
		(restated)
		<i>(Note 2)</i>
<b>Loss for the period</b>	<b>(399,448)</b>	(19,663)
<b>Other comprehensive income for the period (after tax and reclassification adjustments)</b>		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
financial statements of overseas subsidiaries	<b>(9,769)</b>	9,799
<b>Other comprehensive income for the period</b>	<b>(9,769)</b>	9,799
<b>Total comprehensive income for the period</b>	<b>(409,217)</b>	(9,864)

The notes on pages 31 to 44 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016 — unaudited

	<i>Note</i>	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated) <i>(Note 2)</i>	At 1 April 2015 HK\$'000 (restated)
<b>Non-current assets</b>				
Property, plant and equipment	9	532,943	571,857	652,498
Construction in progress	10	12,125	1,502	4,290
Intangible assets	11	28,313	29,664	32,424
Lease prepayments		10,737	11,248	12,156
Other non-current assets	12	37,548	40,290	31,881
Deferred tax assets		–	–	2,220
		<b>621,666</b>	654,561	735,469
<b>Current assets</b>				
Inventories		4,014	5,765	5,075
Trade and other receivables	13	1,778,507	77,985	145,709
Current tax recoverable		–	26,403	–
Cash and cash equivalents	14	537,940	15,266	7,601
		<b>2,320,461</b>	125,419	158,385
<b>Current liabilities</b>				
Trade and other payables	15	317,414	320,560	533,277
Bank and other borrowings		104,464	108,011	244,993
		<b>421,878</b>	428,571	778,270
<b>Net current assets/(liabilities)</b>		<b>1,898,583</b>	(303,152)	(619,885)
<b>Total assets less current liabilities</b>		<b>2,520,249</b>	351,409	115,584

The notes on pages 31 to 44 form part of these financial statements.

# CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 30 September 2016 — unaudited

	<i>Note</i>	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated) <i>(Note 2)</i>	At 1 April 2015 HK\$'000 (restated)
<b>Non-current liabilities</b>				
Convertible bonds	16	114,794	–	–
Convertible note	17	213,325	–	–
Deferred tax liabilities		6,710	2,087	–
Provisions	18	33,076	35,771	37,912
		<b>367,905</b>	37,858	37,912
<b>NET ASSETS</b>		<b>2,152,344</b>	313,551	77,672
<b>CAPITAL AND RESERVES</b>				
Share capital	19(b)	43,646	3,473	3,473
Reserves		2,108,698	310,078	74,199
<b>TOTAL EQUITY</b>		<b>2,152,344</b>	313,551	77,672

The notes on pages 31 to 44 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016 — unaudited

	Share capital HK\$'000 <i>(Note 19(b))</i>	Share premium HK\$'000	Specific reserve HK\$'000	Exchange reserves HK\$'000	Other reserve HK\$'000 <i>(Note 2)</i>	Accumulated losses HK\$'000	Total HK\$'000
<b>Balance at 1 April 2015 (restated)</b>	3,473	119,068	4,019	21,602	139,606	(210,096)	77,672
<b>Changes in equity for the six months ended 30 September 2015:</b>							
Loss for the period	–	–	–	–	–	(19,663)	(19,663)
Other comprehensive income	–	–	–	9,799	–	–	9,799
Total comprehensive income	–	–	–	9,799	–	(19,663)	(9,864)
Appropriation of safety production fund	–	–	639	–	–	(639)	–
Capitalisation of amounts due to former shareholders	–	–	–	–	269,991	–	269,991
<b>Balance at 30 September and 1 October 2015 (restated)</b>	3,473	119,068	4,658	31,401	409,597	(230,398)	337,799
<b>Changes in equity for the six months ended 31 March 2016:</b>							
Loss for the period	–	–	–	–	–	(19,280)	(19,280)
Other comprehensive income	–	–	–	(4,968)	–	–	(4,968)
Total comprehensive income	–	–	–	(4,968)	–	(19,280)	(24,248)
Appropriation of safety production fund	–	–	659	–	–	(659)	–
Utilisation of safety production fund	–	–	(156)	–	–	156	–
<b>Balance at 31 March 2016 (restated)</b>	3,473	119,068	5,161	26,433	409,597	(250,181)	313,551

The notes on pages 31 to 44 form part of this interim financial report.

# CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the six months ended 30 September 2016 — unaudited

	Share capital HK\$'000 <i>(Note 19(b))</i>	Share premium HK\$'000	Specific reserve HK\$'000	Exchange reserves HK\$'000	Other reserve HK\$'000 <i>(Note 2)</i>	Accumulated losses HK\$'000	Total HK\$'000
<b>Balance at 1 April 2016 (restated)</b>	3,473	119,068	5,161	26,433	409,597	(250,181)	313,551
<b>Changes in equity for the six months ended 30 September 2016:</b>							
Loss for the period	-	-	-	-	-	(399,448)	(399,448)
Other comprehensive income	-	-	-	(9,769)	-	-	(9,769)
Total comprehensive income	-	-	-	(9,769)	-	(399,448)	(409,217)
Appropriation of safety production fund	-	-	476	-	-	(476)	-
Utilisation of safety production fund	-	-	(90)	-	-	90	-
Arising from the Reverse Takeover Transaction <i>(Note 1)</i>							
Issue of ordinary shares	12,694	837,306	-	-	-	-	850,000
Issue of preferred shares	27,479	1,812,521	-	-	-	-	1,840,000
Issue of convertible note	-	-	-	-	38,782	-	38,782
Cash consideration for the acquisition of Hongbo Mining	-	-	-	-	(652,211)	-	(652,211)
Deemed shares issued by Hongbo Mining <i>(Note 20(a))</i>	-	-	-	-	171,439	-	171,439
<b>Balance at 30 September 2016</b>	<b>43,646</b>	<b>2,768,895</b>	<b>5,547</b>	<b>16,664</b>	<b>(32,393)</b>	<b>(650,015)</b>	<b>2,152,344</b>

The notes on pages 31 to 44 form part of this interim financial report.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

For the six months ended 30 September 2016 — unaudited

	Note	Six months ended 30 September	
		2016 HK\$'000	2015 HK\$'000 (restated)
<b>Operating activities</b>			
Cash generated from/(used in) operations		14,316	(7,013)
<b>Net cash generated from/(used in) operating activities</b>		14,316	(7,013)
<b>Investing activities</b>			
Payment for the purchase of property, plant and equipment		(4,722)	(16,651)
Net cash outflow from the Reverse Takeover Transaction	20(b)	(714,209)	–
<b>Net cash used in investing activities</b>		(718,931)	(16,651)
<b>Financing activities</b>			
Proceeds from issuing convertible note	17	250,000	–
Proceeds from issuing ordinary shares	19(b)	850,000	–
Proceeds from issuing preferred shares	19(b)	133,306	–
Proceeds from advances and borrowings		89,187	159,317
Repayment of advances and borrowings		(91,931)	(62,980)
Interest paid		(1,930)	(2)
<b>Net cash generated from financing activities</b>		1,228,632	96,335
<b>Net increase in cash and cash equivalents</b>		524,017	72,671
<b>Cash and cash equivalents at 1 April</b>		15,266	7,601
<b>Effect of foreign exchange rate changes</b>		(1,343)	(1,540)
<b>Cash and cash equivalents at 30 September</b>	14	537,940	78,732

The notes on pages 31 to 44 form part of this interim financial report.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 1 GENERAL INFORMATION

Shun Cheong Holdings Limited (the “Company”) was incorporated in Bermuda as an exempted company with limited liability and its shares are listed on the Main Board of The Stock Exchange of Hong Kong Limited (the “Stock Exchange”). The Company’s registered office is located at Canon’s Court, 22 Victoria Street, Hamilton HM12, Bermuda and its head office and principal place of business is located at Suite 2302, Wing On Centre, 111 Connaught Road Central, Hong Kong.

During the six months ended 30 September 2016, the Reverse Takeover Transaction (as defined below) involving a new listing application was completed. The details of the Reverse Takeover Transaction are set out in the Company’s circulars dated 29 June 2016 and 4 August 2016 and the Company’s announcements dated 29 July 2016 and 26 August 2016. The following transactions have been completed:

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

The above transactions (collectively referred to as “Reverse Takeover Transaction”) were completed on 29 July 2016 (the “Completion Date”). As a result, the principal activities of the Company and its subsidiaries (the “Group”) have changed from hotel and restaurant operations as carried out by the Divestment Group to upstream oil exploration, development and production as carried out by Hongbo Mining.

At 30 September 2016, the directors consider the immediate parent of the Group to be Titan Gas, incorporated in the British Virgin Islands, which is 100% held by Titan Gas Technology Holdings Limited. Titan Gas Technology Holdings Limited is owned as to 35.15% 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..



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 2 BASIS OF PREPARATION

This interim financial report has been prepared in accordance with the applicable disclosure provisions of the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited, including compliance with Hong Kong Accounting Standard (HKAS) 34, *Interim financial reporting*, issued by the Hong Kong Institute of Certified Public Accountants (HKICPA). It was authorised for issue on 21 November 2016.

Although the Reverse Takeover Transaction (see Note 1) has been structured such that the Company acquired the entire equity interest of Hongbo Mining, the deemed former shareholders of Hongbo Mining became the majority shareholders of the combined group as a result. Accordingly, the consolidated interim financial information of the Company has been presented as a continuation of the financial information of Hongbo Mining, such that:

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

Hongbo Mining's financial statements for the year ended 31 December 2015 are included in Appendix III to the circular of the Company dated 29 June 2016.

In addition, as the Company divested its original business as part of the Reverse Takeover Transaction, the overall transaction does not constitute a business combination in accordance with HKFRS 3 *Business Combinations*. Instead, Hongbo Mining was deemed to have issued shares to acquire the identifiable net liabilities and the listing status of the Company in accordance with HKFRS 2 *Share-based Payment*. Consequently, the difference in the fair value of the shares deemed to have been issued by Hongbo Mining and the fair value of the Company's identifiable net liabilities has been accounted for as payment for a service of a stock exchange listing for shares, recognised in profit or loss during the period (see Note 20(a)).

The interim financial report has been prepared in accordance with the accounting policies of Hongbo Mining, which are disclosed in Hongbo Mining's 2015 annual financial statements, in addition to the same accounting policies adopted in the Company's annual financial statements for the year ended 31 March 2016, except for the accounting policy changes that are expected to be reflected in the Company's annual financial statements for the year ending 31 March 2017. Details of any changes in accounting policies are set out in Note 3.

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

This interim financial report contains condensed consolidated financial statements and selected explanatory notes. The notes include an explanation of events and transactions that are significant to an understanding of the changes in financial position and performance of the Company and Hongbo Mining since their latest annual financial statements. The condensed consolidated interim financial statements and notes thereon do not include all of the information required for full set of financial statements prepared in accordance with HKFRSs.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 3 CHANGES IN ACCOUNTING POLICIES

The HKICPA has issued a number of amendments to HKFRSs that are first effective for the current accounting period of the Group. Of these, the following amendments are relevant to the Group:

- Annual Improvements to HKFRSs 2012–2014 Cycle
- Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

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

### Annual Improvements to HKFRSs 2012–2014 Cycle

This cycle of annual improvements contains amendments to four standards. Among them, HKAS 34, *Interim financial reporting*, has been amended to clarify that if an entity discloses the information required by the standard outside the interim financial statements by a cross-reference to the information in another statement of the interim financial report, then users of the interim financial statements should have access to the information incorporated by the cross-reference on the same terms and at the same time. The amendments do not have an impact on the Group's interim financial report as the Group does not present the relevant required disclosures outside the interim financial statements.

### Amendments to HKAS 1, *Presentation of financial statements: Disclosure initiative*

The amendments to HKAS 1 introduce narrow-scope changes to various presentation requirements. The amendments do not have a material impact on the presentation and disclosure of the Group's interim financial report.

## 4 SEGMENT REPORTING

As a result of the Reverse Takeover Transaction, the Group's principal activities have changed from hotel and restaurant operations as carried out by the Divestment Group to upstream oil exploration, development and production as carried out by Hongbo Mining. The Group's 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.

The Group's external customer and non-current assets are located in the PRC.

## 5 REVENUE

The Group is engaged in the exploration, development, production and sale of crude oil. Revenue represents the sales value of goods supplied to the customer, net of value added tax. The Group only has one customer during the reporting period.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 6 LOSS BEFORE TAXATION

Loss before taxation is arrived at after charging:

### (a) Finance costs

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000 (restated)
Interest on banks and other borrowings	2,600	2,998
Interest expenses on convertible bonds and convertible note	2,894	–
Others	1,151	1,786
	<b>6,645</b>	<b>4,784</b>

### (b) Other items

Amortisation	2,126	1,693
Depreciation	18,918	28,349
Operating leases charges: minimum lease payments — buildings	571	496
Expenses incurred in relation to the Reverse Takeover Transaction ( <i>Note 1</i> )		
— Listing expense ( <i>Note 20(a)</i> )	294,390	–
— Other transaction costs	66,230	–

## 7 INCOME TAX

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000 (restated)
Deferred tax		
— Origination and reversal of temporary differences	4,623	(1,353)

Provision for Hong Kong Profits Tax of the Company is calculated at 16.5% of the estimated assessable profits. Hongbo Mining is subject to PRC enterprise income tax at the statutory rate of 25%.

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

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 8 LOSS PER SHARE

### (a) Basic loss per share

The calculation of basic loss per share is based on the loss attributable to ordinary equity shareholders of the parent of HK\$399,448,000 (six months ended 30 September 2015 (restated): HK\$19,663,000) and the weighted average of 1,196,507,687 ordinary shares of (six months ended 30 September 2015 (restated): 974,031,452 shares) in issue during the interim period.

The weighted average number of shares used for the purpose of calculating basic loss per share for the six-months ended 30 September 2015 is calculated on the basis of the number of the ordinary shares deemed to be issued for the acquisition of Hongbo Mining pursuant to the Reverse Takeover Transaction (Note 1).

The weighted average number of shares used for the purpose of calculating basic loss per share for the six-months ended 30 September 2016 is calculated on the basis of deemed issues of shares for the acquisition of the Hongbo Mining (as described above) before the Completion Date and the actual number of ordinary shares in issue between the Completion Date to 30 September 2016.

### (b) Diluted loss per share

No adjustment has been made to the basic loss per share amounts presented for the six months ended 30 September 2016 and 2015 in respect of a dilution as the impact of the convertible bonds, convertible note and preferred shares had an anti-dilutive effect on the basic loss per share amounts presented.

## 9 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
<b>Cost:</b>						
At 31 March 2016 (restated)	113,007	72,025	10,921	747,410	23,044	966,407
Additions	–	637	–	–	146	783
Reassessment of provision	–	–	–	(2,702)	–	(2,702)
Exchange adjustments	(3,638)	(2,329)	(352)	(24,021)	(744)	(31,084)
At 30 September 2016	109,369	70,333	10,569	720,687	22,446	933,404
<b>Accumulated depreciation:</b>						
At 31 March 2016 (restated)	(11,924)	(27,176)	(5,813)	(335,360)	(14,277)	(394,550)
Charge for the period	(1,413)	(2,996)	(583)	(12,210)	(1,716)	(18,918)
Exchange adjustments	406	924	196	10,994	487	13,007
At 30 September 2016	(12,931)	(29,248)	(6,200)	(336,576)	(15,506)	(400,461)
<b>Net book value:</b>						
At 31 March 2016 (restated)	101,083	44,849	5,108	412,050	8,767	571,857
At 30 September 2016	96,438	41,085	4,369	384,111	6,940	532,943

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 10 CONSTRUCTION IN PROGRESS

	<b>Cost of wells drilled and other capital expenditure</b> HK\$'000
At 31 March 2016 (restated)	1,502
Additions	10,845
Exchange adjustments	(222)
	<hr/>
At 30 September 2016	12,125

## 11 INTANGIBLE ASSETS

	<b>Cooperation right</b> HK\$'000
<b>Cost:</b>	
At 31 March 2016 (restated)	36,004
Exchange adjustments	(1,160)
	<hr/>
At 30 September 2016	34,844
	<hr style="border-top: 1px dashed black;"/>
<b>Accumulated amortisation:</b>	
At 31 March 2016 (restated)	(6,340)
Charge for the period	(403)
Exchange adjustments	212
	<hr/>
At 30 September 2016	(6,531)
	<hr style="border-top: 1px dashed black;"/>
<b>Net book value:</b>	
At 31 March 2016 (restated)	29,664
	<hr/>
At 30 September 2016	28,313
	<hr/>

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 12 OTHER NON-CURRENT ASSETS

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Prepayments for construction in progress		
— a former fellow subsidiary	4,193	4,332
— third parties	4,966	5,027
Performance deposit	6,335	6,546
Expenditures on public facilities	22,054	24,385
	<b>37,548</b>	40,290

## 13 TRADE AND OTHER RECEIVABLES

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Within 1 month	10,127	8,019
1 to 6 months	44,049	45,700
Trade receivables	54,176	53,719
Prepayment to suppliers	10,078	9,098
Receivables of preferred shares ( <i>Note 19(b)(ii)</i> )	1,706,694	–
Other receivables	7,559	15,168
	<b>1,778,507</b>	77,985

## 14 CASH AND CASH EQUIVALENTS

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Cash at bank and in hand	537,940	15,266

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 15 TRADE AND OTHER PAYABLES

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Within 1 year	<b>64,838</b>	47,817
Over 1 year but within 2 years	<b>81,264</b>	103,949
Over 2 years but within 3 years	<b>26,802</b>	17,736
Over 3 years	<b>4,109</b>	1,568
Trade payables	<b>177,013</b>	171,070
Amounts due to immediate holding company	<b>1,109</b>	–
Taxes other than income tax	<b>10,097</b>	9,983
Guarantee deposit	<b>40,652</b>	42,004
Payable to Shanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau)	<b>70,387</b>	92,096
Others	<b>18,156</b>	5,407
	<b>317,414</b>	320,560

## 16 CONVERTIBLE BONDS

For accounting purpose, Hongbo Mining (as acquirer) is deemed to have issued shares to acquire the identifiable net liabilities (including convertible bonds) and the listing status of the Company at the Completion Date (see Note 20). The convertible bonds have total nominal value of HK\$120,000,000. Interest at 1 % per annum is payable half year in arrears. The convertible bonds are convertible into the Company's ordinary shares at a conversion price of HK\$0.0672 per share at any time before 30 April 2018.

The fair value of the liability component of the convertible bonds was estimated at the Completion Date by the directors of the Company with reference to the valuation performed by an independent professional valuer. The fair value of the liability component of the convertible bonds is determined by discounted cash flow using the inputs including estimated cash flows over the remaining terms of the convertible bonds and discount rate that reflect the credit risk of the Company. The discount rate used was 4.12% per annum.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 17 CONVERTIBLE NOTE

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 all of the convertible note into the Company's 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 and a liability component. The liability component was initially measured at fair value of HK\$211,218,000 and carried at amortised cost. The excess of the principal amount over the fair value of the liability component of HK\$38,782,000 was recognised within equity.

The fair value of the liability component of the convertible note was estimated at the Completion Date by the directors of the Company with reference to the valuation performed by an independent professional valuer. The fair value of the liability component of the convertible note is determined by discounted cash flow using the inputs including estimated cash flows over the remaining terms of the convertible note and discount rate that reflect the credit risk of the Company. The discount rate used was 5.78% per annum.

## 18 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:

	<b>Assets retirement obligations HK\$'000</b>
At 31 March 2016 (restated)	<b>35,771</b>
Reassessment	<b>(2,702)</b>
Accretion expense	<b>1,134</b>
Exchange adjustments	<b>(1,127)</b>
At 30 September 2016	<b>33,076</b>



# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 19 CAPITAL, RESERVES AND DIVIDENDS

### (a) Dividends

No dividends were paid, declared or proposed during the six months ended 30 September 2016 and 2015.

### (b) Share capital

	Ordinary shares		Preferred shares		Total	
	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000	Number of shares '000	Nominal value HK\$'000
Shares of HK\$0.01 each						
Authorised:						
At 1 April 2015, 30 September 2015 and 31 March 2016	8,000,000	80,000	–	–	8,000,000	80,000
Increase in authorised shares (i)	–	–	5,000,000	50,000	5,000,000	50,000
At 30 September 2016	8,000,000	80,000	5,000,000	50,000	13,000,000	130,000
Issued, paid or payable:						
At 1 April 2015, 30 September 2015 and 31 March 2016	347,326	3,473	–	–	347,326	3,473
Allotment and issuance of shares (ii)	1,269,415	12,694	2,747,910	27,479	4,017,325	40,173
At 30 September 2016	1,616,741	16,167	2,747,910	27,479	4,364,651	43,646

(i) Pursuant to a special resolution passed on 22 July 2016, the authorised share capital of the Company was increased from HK\$80,000,000 to HK\$130,000,000 by the creation of 5,000,000,000 preferred shares of HK\$0.01 each.

(ii) At the Completion Date, the Company issued 1,269,414,575 ordinary shares at a subscription price of HK\$0.6696 per share for cash and 2,747,909,199 preferred shares at a subscription price of HK\$0.6696 per share.

Key terms of the preferred shares are as follows:

- The total cash consideration for the subscription is HK\$1,840,000,000, of which HK\$133,306,000 was received on the Completion Date. The remaining HK\$1,706,694,000 shall be fully paid within one year of the Completion Date;
- Holders of fully-paid preferred shares will be entitled to all rights and privileges of the preferred shares;
- None of the preferred shares shall confer on the holders thereof the right to receive out of the funds of the Company available for distribution;
- The holders of the preferred shares shall be entitled to the net assets of the Company on an as-if-converted basis. Even if the preferred shares are not fully paid on liquidation, winding up or dissolution of the Company, the preferred shares shall entitle the holder the Company's net assets and at the same time the Company has the right to request full payment of the subscription price from the holder; and
- The fully-paid preferred shares are convertible into the Company's ordinary shares.

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 20 ACQUISITION

### (a) Listing expense

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

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

	HK\$'000
Other receivables	812
Cash at bank and in hand	495
Trade and other payables	(10,050)
Convertible bonds ( <i>Note 16</i> )	(114,208)
	<hr/>
Total identifiable net liabilities at fair value	(122,951)
Listing expense	294,390
	<hr/>
Fair value of the deemed shares issued by Hongbo Mining	171,439
	<hr/>

### (b) Analysis of cash flows in respect of the Reverse Takeover Transaction

	HK\$'000
Cash consideration for acquisition of Hongbo Mining	652,211
Other transaction costs paid	62,493
Cash acquired in the acquisition of the Company	(495)
	<hr/>
Net outflow of cash and cash equivalents included in cash flows from investing activities	714,209
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# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 21 FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

The fair value of the Group's financial instruments measured at the end of the reporting period on a recurring basis, 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

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

## 22 COMMITMENT

(a) Capital commitment outstanding not provided for in the interim financial report is as follows:

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Contracted, but not provide for: — property, plant and equipment	<b>5,302</b>	6,079

(b) As at the respective reporting period end dates, total future minimum lease payments under non-cancellable operating leases payable are as follows:

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Within 1 year	<b>808</b>	720
After 1 year but within 5 years	<b>527</b>	–
	<b>1,335</b>	720

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 23 MATERIAL RELATED PARTY TRANSACTIONS

### (a) Key management personnel remuneration

Remuneration for key management personnel of Group, including amounts paid to Group's directors and certain of the highest paid employees, is as follows:

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000 (restated)
Short-term employee benefits	1,223	1,953
Post-employment benefits	50	98
	<b>1,273</b>	<b>2,051</b>

### (b) Transactions with other related parties

The Group had the following material transactions with related parties during the reporting period.

	Six months ended 30 September	
	2016 HK\$'000	2015 HK\$'000 (restated)
With former holding company and fellow subsidiaries		
— advances received	(31)	(19,158)
— repayment of advances	3,549	22,556
— proceeds from borrowings	—	(2,790)
— repayment of borrowings	—	6,820
— rental expense	317	496
— prepayment	—	2,437
— increase in net payables	(317)	(20,015)
With former other related party		
— decrease in net payables	—	24,034
With immediate holding company		
— increase in net payables	(1,109)	—

# NOTES TO THE UNAUDITED INTERIM FINANCIAL REPORT

## 23 MATERIAL RELATED PARTY TRANSACTIONS (CONTINUED)

### (b) Transactions with other related parties (Continued)

The Group's outstanding balances with related parties are as follows:

	<b>At 30 September 2016 HK\$'000</b>	At 31 March 2016 HK\$'000 (restated)
Trade and other receivables		
— former fellow subsidiaries	—	7,483
— immediate holding company	<b>897,887</b>	—
Other non-current assets		
— a former fellow subsidiary	—	4,332
Trade and other payables		
— immediate holding company	<b>(1,109)</b>	—

## 24 NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

On 21 November 2016 (local time in Houston, Texas, the United States of America), the Company entered into an assets purchase agreement (the "APA") with Stonegate Production Company, LLC, Stonegate Dimmit Properties, LLC and/or Dimmit/La Salle Saltwater Disposal Company, LLC (the "Stonegate Sellers"). Pursuant to the APA, the Company has conditionally agreed to acquire and the Stonegate Sellers have conditionally agreed to sell the oil and gas related assets of the Stonegate Sellers in the Eagle Ford region of South Texas, the United States of America, at a purchase price of US\$278 million (approximately HK\$2,156 million) (subject to adjustments in accordance with the APA) (the "Stonegate Acquisition"). Completion of the Stonegate Acquisition is conditional upon the satisfaction or, if applicable, waiver of certain conditions precedent set out in the APA.

For details of the Stonegate Acquisition, please refer to the announcement of the Company dated 22 November 2016 published on the website of The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (<http://www.hkexnews.hk/>).