ENERGY INTERNATIONAL INVESTMENTS HOLDINGS LIMITED
能源國際投資控股有限公司*

(Incorporated in the Cayman Islands with limited liability)

(Stock code: 353)

ANNOUNCEMENT OF 2016 FINAL RESULTS

The board of directors (the "**Board**") of Energy International Investments Holdings Limited (the "**Company**") presents the audited consolidated annual results of the Company and its subsidiaries (together referred to as the "**Group**") for the year ended 31 December 2016 as follows:

CONSOLIDATED INCOME STATEMENT
For the year ended 31 December 2016

	Notes	**2016** ***HK$'000***	2015 *HK$'000*
Revenue	*4*	**40,926**	87,480
Cost of sales		**(61,957)**	(131,917)
Gross loss		**(21,031)**	(44,437)
Other income	*4*	**3,015**	1,229
Reversal of impairment loss on property, plant and equipment	*11*	**15,349**	–
Reversal of impairment loss on prepaid land lease payments	*12*	**2,179**	–
Gain from bargain purchase		**–**	24,193
Selling and distribution expenses		**(2,120)**	(3,866)
Administrative expenses		**(52,456)**	(42,495)
Other operating expenses, net		**(15,286)**	(52,229)
Impairment loss on property, plant and equipment	*11*	**(11,024)**	(82,461)
Impairment loss on prepaid land lease payments	*12*	**–**	(6,106)
Impairment loss on intangible assets	*13*	**(166,938)**	(408,954)
Finance costs	*6*	**–**	(20,049)
Loss before income tax	*7*	**(248,312)**	(635,175)
Income tax credit	*8*	**47,348**	103,199
Loss for the year		**(200,964)**	(531,976)

* *For identification purpose only*

CONSOLIDATED INCOME STATEMENT

For the year ended 31 December 2016

	Notes	**2016**	2015
		HK$'000	*HK$'000*
Loss for the year attributable to:			
Owners of the Company		**(189,971)**	(492,568)
Non-controlling interests		**(10,993)**	(39,408)
		(200,964)	(531,976)
Loss per share for loss attributable to the owners of the Company	*10*		
– Basic and diluted		**(HK cents 5.0)**	(HK cents 15.4)

CONSOLIDATED STATEMENT OF COMPREHENSIVE INCOME

For the year ended 31 December 2016

	2016	2015
	HK$'000	*HK$'000*
Loss for the year	**(200,964)**	(531,976)
Other comprehensive income		
Items that may be reclassified subsequently to profit or loss:		
Exchange losses on translation of financial statements of foreign operations	**(20,965)**	(7,273)
Other comprehensive income for the year	**(20,965)**	(7,273)
Total comprehensive income for the year	**(221,929)**	(539,249)
Total comprehensive income attributable to:		
– Owners of the Company	**(203,012)**	(495,532)
– Non-controlling interests	**(18,917)**	(43,717)
	(221,929)	(539,249)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

As at 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS AND LIABILITIES			
Non-current assets			
Property, plant and equipment	*11*	**919,260**	383,943
Prepaid land lease payments	*12*	**4,453**	3,132
Sea area use rights		**103,987**	114,222
Intangible assets	*13*	**389,084**	557,821
Deposits and other receivables		**17,041**	–
Deferred tax assets		**49,724**	55,939
		1,483,549	1,115,057
Current assets			
Inventories – raw materials		**1,993**	925
Trade and bills receivables	*14*	**28,704**	34,085
Prepayments, deposits and other receivables		**78,763**	97,659
Financial assets at fair value through profit or loss		**14,607**	24,818
Pledged bank deposits		**42,921**	22
Cash and bank balances		**195,893**	238,260
		362,881	395,769
Current liabilities			
Trade payables	*15*	**10,467**	11,172
Bills and other payables and accruals		**448,709**	383,829
Amounts due to non-controlling shareholders		**22,032**	20,932
Bank borrowings		**49,370**	41,300
Other borrowings		**127,774**	29,972
Finance lease liabilities		**37,960**	–
Convertible bonds		**10,232**	3,337
Tax payables		**9,464**	10,140
		716,008	500,682
Net current liabilities		**(353,127)**	(104,913)
Total assets less current liabilities		**1,130,422**	1,010,144

	Notes	**2016** **HK$'000**	2015 *HK$'000*
Non-current liabilities			
Other payables		**39,533**	–
Amount due to non-controlling shareholders		**78,039**	–
Bank borrowings		**165,257**	–
Other borrowings		**12,516**	12,533
Finance lease liabilities		**94,040**	–
Convertible bonds		**155,244**	138,113
Deferred tax liabilities		**120,511**	172,287
		665,140	322,933
Net assets		**465,282**	687,211
EQUITY			
Equity attributable to the owners of the Company			
Share capital		**304,970**	304,970
Reserves		**44,818**	247,830
		349,788	552,800
Non-controlling interests		**115,494**	134,411
Total equity		**465,282**	687,211

NOTES TO THE FINANCIAL STATEMENTS

For the year ended 31 December 2016

1. GENERAL INFORMATION

Energy International Investments Holdings Limited (the "Company") is a limited liability company incorporated and domiciled in the Cayman Islands. Registered office of the Company is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands and its principal place of business is Unit 1508, 15th Floor, The Center, 99 Queen's Road Central, Hong Kong. The Company's shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

During the year, the principal activities of the Company and its subsidiaries (together referred to as the "Group") include:

– the supply of electricity and heat representing the business of generation and supplying of electricity and heat;

– the oil production representing the business of oil production; and

– the oil and liquefied chemical terminal representing the business of operation of liquid chemical terminal, storage and logistics facilities. The construction of these facilities is expected to complete in 2017.

There were no significant changes in the Group's operations during the year.

The financial statements have been prepared in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") which collective term includes all applicable individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the Hong Kong Institute of Certified Public Accountants. The financial statements also include the applicable disclosure requirements of the Hong Kong Companies Ordinance and the Rules Governing the Listing of Securities on the Stock Exchange.

The financial statements are presented in Hong Kong dollars ("HK$"), which is also the functional currency of the Company and all values are rounded to the nearest thousand ("HK$'000") unless otherwise stated.

2. ADOPTION OF NEW/REVISED HKFRSs

(a) Adoption of new/revised HKFRSs – effective on 1 January 2016

Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investment Entities: Applying the Consolidation Exception

The adoption of these amendments has no material impact on the financial statements.

(b) New/revised HKFRSs that have been issued but are not yet effective

At the date of authorisation of these financial statements, certain new/revised HKFRSs have been published but are not yet effective, and have not been adopted early by the Group.

The directors of the Company anticipate that all of the pronouncements will be adopted in the Group's accounting policy for the first period beginning after the effective date of the pronouncement. Information on new/revised HKFRSs that are expected to have a material impact on the Group's accounting policies is provided below. The Group is not yet in a position to state whether these new/revised HKFRSs will result in substantial changes to the Group's accounting policies and financial statements.

Amendments to HKAS 7 – Disclosure Initiative

This standard is effective for accounting periods beginning on or after 1 January 2017. The amendments introduce an additional disclosure that will enable users of financial statements to evaluate changes in liabilities arising from financing activities.

Amendments to HKAS 12 – Recognition of Deferred Tax Assets for Unrealised Losses

This standard is effective for accounting periods beginning on or after 1 January 2017. The amendments relate to the recognition of deferred tax assets and clarify some of the necessary considerations, including how to account for deferred tax assets related to debt instruments measured at fair value.

Amendments to HKFRS 2 – Classification and Measurement of Share-based Payment Transactions

This standard is effective for accounting periods beginning on or after 1 January 2018. The amendments provide requirements on the accounting for the effects of vesting and non-vesting conditions on the measurement of cash-settled share-based payments; share-based payment transactions with a net settlement feature for withholding tax obligations; and a modification to the terms and conditions of a share-based payment that changes the classification of the transaction from cash-settled to equity-settled.

HKFRS 9 – Financial Instruments

This standard is effective for accounting periods beginning on or after 1 January 2018. HKFRS 9 introduces new requirements for the classification and measurement of financial assets. Debt instruments that are held within a business model whose objective is to hold assets in order to collect contractual cash flows (the business model test) and that have contractual terms that give rise to cash flows that are solely payments of principal and interest on the principal amount outstanding (the contractual cash flow characteristics test) are generally measured at amortised cost. Debt instruments that meet the contractual cash flow characteristics test are measured at fair value through other comprehensive income if the objective of the entity's business model is both to hold and collect the contractual cash flows and to sell the financial assets. Entities may make an irrevocable election at initial recognition to measure equity instruments that are not held for trading at fair value through other comprehensive income. All other debt and equity instruments are measured at fair value through profit or loss.

HKFRS 9 includes a new expected loss impairment model for all financial assets not measured at fair value through profit or loss replacing the incurred loss model in HKAS 39 and new general hedge accounting requirements to allow entities to better reflect their risk management activities in financial statements.

HKFRS 9 carries forward the recognition, classification and measurement requirements for financial liabilities from HKAS 39, except for financial liabilities designated at fair value through profit or loss, where the amount of change in fair value attributable to change in credit risk of the liability is recognised in other comprehensive income unless that would create or enlarge an accounting mismatch. In addition, HKFRS 9 retains the requirements in HKAS 39 for derecognition of financial assets and financial liabilities.

HKFRS 15 – Revenue from Contracts with Customers

This standard is effective for accounting periods beginning on or after 1 January 2018. The new standard establishes a single revenue recognition framework. The core principle of the framework is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods and services. HKFRS 15 supersedes existing revenue recognition guidance including HKAS 18 Revenue, HKAS 11 Construction Contracts and related interpretations.

HKFRS 15 requires the application of a 5-step approach to revenue recognition:

– Step 1: Identify the contract(s) with a customer
– Step 2: Identify the performance obligations in the contract
– Step 3: Determine the transaction price
– Step 4: Allocate the transaction price to each performance obligation
– Step 5: Recognise revenue when each performance obligation is satisfied

HKFRS 15 includes specific guidance on particular revenue related topics that may change the current approach taken under HKFRS. The standard also significantly enhances the qualitative and quantitative disclosures related to revenue.

Amendments to HKFRS 15 – Revenue from Contracts with Customers (Clarifications to HKFRS 15)

This standard is effective for accounting periods beginning on or after 1 January 2018. The amendments to HKFRS 15 included clarifications on identification of performance obligations; application of principal versus agent; licenses of intellectual property; and transition requirements.

HKFRS 16 – Leases

This standard is effective for accounting periods beginning on or after 1 January 2019. HKFRS 16, which upon the effective date will supersede HKAS 17 "Leases" and related interpretations, introduces a single lessee accounting model and requires a lessee to recognise assets and liabilities for all leases with a term of more than 12 months, unless the underlying asset is of low value. Specifically, under HKFRS 16, a lessee is required to recognise a right-of-use asset representing its right to use the underlying leased asset and a lease liability representing its obligation to make lease payments. Accordingly, a lessee should recognise depreciation of the right-of-use asset and interest on the lease liability, and also classifies cash repayments of the lease liability into a principal portion and an interest portion and presents them in the statement of cash flows. Also, the right-of-use asset and the lease liability are initially measured on a present value basis. The measurement includes non-cancellable lease payments and also includes payments to be made in optional periods if the lessee is reasonably certain to exercise an option to extend the lease, or to exercise an option to terminate the lease. This accounting treatment is significantly different from the lessee accounting for leases that are classified as operating leases under the predecessor standard, HKAS 17.

In respect of the lessor accounting, HKFRS 16 substantially carries forward the lessor accounting requirements in HKAS 17. Accordingly, a lessor continues to classify its leases as operating leases or finance leases, and to account for those two types of leases differently.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) Basis of preparation

The significant accounting policies that have been used in the preparation of these financial statements are summarised below. These policies have been consistently applied to all the years presented unless otherwise stated.

The financial statements have been prepared under the historical cost convention, except for financial assets at fair value through profit or loss, which are measured at fair value. The measurement bases are fully described in the accounting policies below.

(i) Songliao contract

In 2010, the Group completed the acquisition of 100% equity interest in China International Energy Investments (Hong Kong) Limited ("China International Energy") which holds the petroleum contract entered into between China Era Energy Power Investment Limited ("China Era"), a wholly-owned subsidiary of China International Energy, and a state-owned enterprise engaged in oil exploration industry, namely China National Petroleum Corporation (to be referred to as the "State-owned Enterprise" throughout the notes to the financial statements in this announcement and in our 2016 annual report), on 13 August 2007 (the "Songliao Contract") from the vendor, Greater China Limited ("Greater China"). China International Energy was wholly owned by an individual ("Mr. A") at the time of obtaining the Songliao Contract.

In 2015, the directors of the Company found that Mr. A was formally charged by prosecution authorities in the People's Republic of China (the "PRC") for illegal crime (the "Charge"), possibly involved allegations about improper conduct in obtaining of the Songliao Contract.

As soon as the directors of the Company found the Charge, the Group commenced legal proceedings in the Cayman Islands against various parties including Mr. A, Greater China, Mr. Li Weijun (Greater China's warrantor) and Giant Crystal Limited ("Giant Crystal") (which was nominated by Greater China as the allottee of the promissory notes, consideration shares and convertible bonds for the consideration of the Songliao Contract) (the "Defendants") on the basis that (a) the Greater China's warranties and/or representations given in the acquisition were false and misleading and knowing that the Group entered into the acquisition agreement in reliance thereon; and (b) the Defendants of the litigation wrongly conspired and combined together to defraud the Group to pay the consideration.

In the litigation, the Group sought (1) a declaration that they are entitled to validly rescind the acquisition agreement; (2) an order that the consideration be repaid, a declaration that the promissory notes and convertible bonds are at all material times null and void and of no legal effect; (3) a declaration that Giant Crystal held and continue to hold the consideration shares and any shares issued upon exercise of the convertible bonds on trust for the Company; (4) an injunction against all Defendants that they be restrained from disposing of, encumbering or otherwise dealing with or diminishing the value of, and/or exercising any rights or powers (including but not limited to voting rights in general and/or extraordinary meeting(s) in respect of, and/or entering into any agreement to effect any transaction in relation to, the consideration shares and the converted shares; (5) an injunction against all Defendants from completing and/or procuring the conversion and/or transferring of the convertible bonds; (6) damages for fraud and/or deceit; and (7) an order that the Defendants compensate the Group in equity.

In 2017, the Group obtained the legal opinion from the lawyers in the PRC stating that under the laws prevailing in the PRC, all entities are innocent unless found guilty by the Municipal Court. However, if the contract is found to be used to conduct illegal trade by top management, the contract can be invalidated through the Supreme People's Court. According to the Contract Laws of the PRC, when a contract becomes invalid or is rescinded, any property obtained under the contract shall be returned. In the circumstances when the return of properties is impossible, compensation shall be made at an estimated price for the loss caused by the defaulted parties. As a party of the contract, the Group is entitled to either enter into arbitration or to file a civil legal action to rescind or invalidate the contract and seek compensation from the defaulted parties. As there has been no progress during the year and there was no adjudication in respect of the Charge, it is not possible to estimate the outcome on the Group's oil production business and financial position, arising from the Charge against Mr. A.

Included in the consolidated statement of financial position as at 31 December 2016 are property, plant and equipment, intangible assets and net deferred tax liabilities with carrying amounts of HK$25,696,000 (2015: HK$46,167,000), HK$389,084,000 (2015: HK$557,821,000) and HK$47,497,000 (2015: HK$83,358,000) respectively. The property, plant and equipment and intangible assets are collectively referred to as the "Oil Production Assets". The Oil Production Assets relate to the operation of oil production business, pursuant to the Songliao Contract, entered into with the State-owned Enterprise to develop and produce crude oil in Liangjing Block on Songliao Basin in Jilin, the PRC.

As at 31 December 2016, the directors of the Company estimated the recoverable amount of the cash-generating unit to which the Oil Production Assets belong (the "Oil Production CGU"). As the carrying amounts of the Oil Production CGU exceeded its recoverable amount, impairment losses of HK$166,938,000 (2015: HK$408,954,000) and HK$11,024,000 (2015: HK$33,843,000) were recognised for the year ended 31 December 2016 on intangible assets and property, plant and equipment respectively. In estimating the recoverable amount, the directors of the Company have assumed that the Songliao Contract will remain valid and the Group's oil production business will continue in operation throughout the Songliao Contract period.

Having taken into account of the legal opinion, the directors of the Company consider that the Songliao Contract will continue to be valid and will be executed as planned as the Group has close working relationship with the State-owned Enterprise and up to the date of authorisation for issue of the consolidated financial statements, there is no indication from the State-owned Enterprise regarding any potential claim or questioning on the validity of the Songliao Contract.

(ii) Going concern basis

The financial statements have been prepared on a going concern basis which notwithstanding that (i) the Group incurred a loss of HK$200,964,000 (2015: HK$531,976,000) during the year; (ii) as at 31 December 2016, the Group had net current liabilities of HK$353,127,000 (2015: HK$104,913,000); (iii) as at 31 December 2016, included in current liabilities was the total outstanding construction costs of HK$420,716,000 (2015: 345,172,000), that are required to repay within one year after the reporting date, in which amounts of HK$319,177,000 (2015: HK$315,200,000) and HK$101,539,000 (2015: HK$29,972,000) are recognised under other payables and other borrowings respectively and the capital commitment for construction cost was HK$154,466,000 (2015: HK$587,704,000); and (iv) as at 31 December 2016, included in current liabilities was bank loans of HK$49,370,000 (2015: HK$41,300,000) that was overdue for repayments. These conditions indicate the existence of a material uncertainty that may cast significant doubt on the Group's ability to continue as a going concern and therefore, it may be unable to realise its assets and discharge its liabilities in the normal course of business. The directors of the Company have prepared the consolidated financial statements based on a going concern on the assumptions that:

(a) the Songliao Contract continues to be valid and the Group continues its oil production business, which is the basis on which the directors prepared the cash flow forecast for the next twelve months after 31 December 2016;

(b) the Group will settle the outstanding construction cost of HK$180,155,000. For the remaining balances of total construction costs, based on the good relationship with the contractors, the contractors will extend the repayment dates over twelve months after 31 December 2016;

(c) the Group will utilise the banking facilities of RMB150 million (approximately HK$165 million) in 2017 which was granted by a bank in the PRC for the Group's oil and liquefied chemicals terminal project;

(d) the disposal of the electricity and heat business was completed in March 2017; and

(e) the lease of oil and liquefied chemical terminal will be executed in 2017 in accordance with the terms and conditions of the lease agreement.

After taking into account the above measures, the directors of the Company consider that the Group can meet its financial obligations as and when they fall due in the foreseeable future and believe that the Group will continue as a going concern and consequently have prepared the financial statements on a going concern basis.

Should the Group be unable to continue in business as a going concern, adjustments would have to be made in the consolidated financial statements to reduce the values of the assets to their estimated realisable values, to provide for any further liabilities which may arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in these consolidated financial statements.

(iii) Loss of controls over assets of Qinghai Forest Source Mining Industry Developing Company Limited ("QHFSMI") and Inner Mongolia Forest Source Mining Industry Developing Company Limited ("IMFSMI") and de-consolidating QHFSMI and IMFSMI

Ms Leung's legal status as director and legal representative in QHFSMI and IMFSMI remained unchanged in the absence of her cooperation

Ms Leung Lai Ching ("Ms Leung") was a director and legal representative of both QHFSMI and IMFSMI. In September 2009, the sole shareholder of QHFSMI and IMFSMI (i.e. a wholly-owned subsidiary of the Company) resolved to remove Ms Leung's capacity as director and legal representative of both QHFSMI and IMFSMI with immediate effect. However, the respective members of the board of directors and legal representative of QHFSMI and IMFSMI were not officially changed up to the date of authorisation for issue of the consolidated financial statements as Ms Leung, being the then legal representative, was not cooperative and failed to provide the requested documents and corporate seals.

Transfer of exploration licence without the Company's knowledge, consent or approval

The Group acquired QHFSMI from Ms Leung in 2007. QHFSMI was the holder of an exploration licence which conferred QHFSMI the rights to conduct exploration work for the mineral resources in the titanium mine at Xiao Hong Shan in Inner Mongolia, the PRC. In 2010, the board of directors discovered that the exploration licence held by QHFSMI was transferred to a company known as 內蒙古小紅山源森礦業有限公司 (in English, for identification purpose only, Inner Mongolia Xiao Hong Shan Yuen Xian Mining Industry Company Limited) ("Yuen Xian Company") at a consideration of RMB8,000,000 (the "Change of Exploration Right Agreement") without the Company's knowledge, consent or approval. Ms Leung is one of the directors and the legal representative of Yuen Xian Company. Without the exploration licence, QHFSMI no longer had the rights to, among other things, carry out exploration of the mineral resources of the titanium mine, access to the titanium mine and neighbouring areas and has no priority in obtaining the mining rights of the titanium mine.

Final decision on the Change of Exploration Right Agreement

As soon as the Group had discovered the loss of QHFSMI's exploration licence, the Group commerced the legal proceedings against Ms. Leung for getting back the exploration licence. In March 2016, the Company received the final decision letter from the Qinghai Procuratorate that the Change of Exploration Right Agreement was invalid. As Yuen Xian Company had already obtained the mining licence on the titanium mine at Xiao Hong Shan in Inner Mongolia, the PRC, the Group is now seeking for the legal advices to resolve this matter.

De-consolidating QHFSMI and IMFSMI

Given that (i) the discovery of the loss of significant assets of QHFSMI; (ii) Ms Leung's legal status as director and legal representative in QHFSMI and IMFSMI remained unchanged; and (iii) the Group was unable to obtain the financial information of QHFSMI and IMFSMI, the directors of the Company considered that the Group had no power over QHFSMI and IMFSMI, exposure, or rights, to variable returns from QHFSMI and IMFSMI and the ability to use its power to affect those variable returns. The Group appointed the PRC lawyers to handle the matters in regaining its controlling power over QHFSMI and IMFSMI. In the opinion of the directors, the aforesaid legal proceedings have no material impact on the financial position and operations of the Group as the Group is still in the process of regaining the controlling power over QHFSMI and IMFSMI which had already been de-consolidated since 2010.

4. REVENUE AND OTHER INCOME

The Group's principal activities are disclosed in note 1 to the financial statements. Revenue from the Group's principal activities and other income recognised are as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Sale of electricity and heat	**22,164**	46,805
Sale of crude oil	**18,762**	40,675
	40,926	87,480
Other income		
Bank interest income	**244**	24
Government grants *(note below)*	**696**	1,168
Sundry income	**2,075**	37
	3,015	1,229

Note: These were mainly unconditional grants from the local government in the PRC to the Group.

5. SEGMENT INFORMATION

The Group has identified its operating segments and prepared segment information based on the regular internal financial information reported to management of the Group for their decisions about resources allocation to the Group's business components and review of these components' performance. The business components in the internal reporting to management of the Group are determined based on the Group's major product and service lines. The Group has identified the following reportable segments.

(a) the Oil Production segment represents the business of oil production;

(b) the Oil and Liquefied Chemical Terminal segment represents the business of operation of oil liquefied chemical terminal, storage and logistics facilities; and

(c) the Supply of Electricity and Heat segment represents the business of generation and supplying of electricity and heat.

There was no inter-segment sale and transfer during the year (2015: Nil).

	Oil Production		Oil and Liquefied Chemical Terminal		Supply of Electricity and Heat		Total	
	2016	2015	**2016**	2015	**2016**	2015	**2016**	2015
	HK$'000	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*	***HK$'000***	*HK$'000*
Reportable segment revenue:								
From external customers	**18,762**	40,675	**–**	–	**22,164**	46,805	**40,926**	87,480
Reportable segment (loss)/profit	**(207,784)**	(471,973)	**(6,397)**	24,193	**1,299**	(90,073)	**(212,882)**	(537,853)
Bank interest income	**12**	23	**222**	–	**2**	–	**236**	23
Reversal of impairment loss on property, plant and equipment	**–**	–	**–**	–	**15,349**	–	**15,349**	–
Reversal of impairment loss on prepaid land lease payments	**–**	–	**–**	–	**2,179**	–	**2,179**	–
Depreciation	**(5,544)**	(14,076)	**(426)**	–	**(8,737)**	(29,121)	**(14,707)**	(43,197)
Amortisation of prepaid land lease payments	**–**	–	**–**	–	**(646)**	(679)	**(646)**	(679)
Amortisation of sea area use rights	**–**	–	**(2,446)**	–	**–**	–	**(2,446)**	–
Amortisation of intangible assets	**(1,463)**	(4,392)	**–**	–	**–**	–	**(1,463)**	(4,392)
Impairment loss on property, plant and equipment	**(11,024)**	(33,843)	**–**	–	**–**	(48,618)	**(11,024)**	(82,461)
Impairment loss on prepaid land lease payments	**–**	–	**–**	–	**–**	(6,106)	**–**	(6,106)
Impairment loss on intangible assets	**(166,938)**	(408,954)	**–**	–	**–**	–	**(166,938)**	(408,954)
Reportable segment assets	**475,448**	629,222	**1,239,197**	577,712	**108,566**	152,129	**1,823,211**	1,359,063
Additions to non-current segment assets during the year	**–**	45	**617,260**	–	**754**	–	**618,014**	45
Reportable segment liabilities	**267,706**	300,362	**810,551**	263,900	**107,915**	101,176	**1,186,172**	665,438

The totals presented for the Group's operating segments reconcile to the Group's key financial figures as presented in the consolidated financial statements as follows:

	2016	2015
	HK$'000	*HK$'000*
Revenue		
Reportable segment revenue and consolidated revenue	**40,926**	87,480
Loss before income tax		
Reportable segment loss	**(212,882)**	(537,853)
Finance costs	**–**	(20,049)
Other unallocated income	**35**	9
Other unallocated expenses	**(35,465)**	(77,282)
Consolidated loss before income tax	**(248,312)**	(635,175)

	2016	2015
	HK$'000	*HK$'000*
Assets		
Reportable segment assets	**1,823,211**	1,359,063
Property, plant and equipment	**49**	59
Cash and bank balances	**7,520**	96,249
Other corporate assets	**15,650**	55,455
Group assets	**1,846,430**	1,510,826
Liabilities		
Reportable segment liabilities	**1,186,172**	665,438
Convertible bonds	**165,476**	141,450
Other corporate liabilities	**29,500**	16,727
Group liabilities	**1,381,148**	823,615

All revenue from external customers are located in the PRC (domicile). Geographical location of customers is based on the location at which the goods are delivered. No geographical location of non-current assets is presented as substantial non-current assets are physically based in the PRC.

Revenue from the major customers is as follows:

	2016	2015
	HK$'000	*HK$'000*
Customer A (derived from the Oil Production segment)	**18,762**	40,675
Customer B* (derived from the Supply of Electricity and Heat segment)	**–**	13,710
Customer C (derived from the Supply of Electricity and Heat segment)	**7,581**	14,514
Customer D (derived from the Supply of Electricity and Heat segment)	**9,221**	12,716
	35,564	81,615

* *Amount for Customer B for the year ended 31 December 2016 has not been disclosed as revenue from this customer is less than 10% of the Group's revenue in that year.*

6. FINANCE COSTS

	2016 *HK$'000*	2015 *HK$'000*
Imputed interest on convertible bonds	**26,634**	9,268
Interest on bank and other borrowings due within one year	**24,757**	5,191
Finance lease charges	**1,041**	–
Imputed interest on other borrowings and amount due to non-controlling shareholders	**2,733**	5,590
	55,165	20,049
Less: Amount capitalised*	**(55,165)**	–
	–	20,049

* *Borrowing costs capitalised during the year arose on the general borrowing pool and are calculated by applying a capitalisation rate of 9.54% (2015: Nil) to expenditure on qualifying assets.*

7. LOSS BEFORE INCOME TAX

Loss before income tax is arrived at after charging the following:

	2016 *HK$'000*	2015 *HK$'000*
Cost of inventories recognised as expense	**14,784**	30,863
Depreciation	**14,726**	43,220
Amortisation of prepaid land lease payments	**646**	679
Amortisation of sea area use rights*	**2,446**	–
Amortisation of intangible assets*	**1,463**	4,392
Fair value loss on financial assets at fair value through profit or loss*	**10,560**	126
Auditor's remuneration	**1,093**	998
Loss on disposals of property, plant and equipment	**28**	494
Operating lease charges on land and buildings	**4,724**	2,588
Employee costs, including directors' emoluments	**32,976**	30,593

* *Included in "Other operating expenses" on the face of the consolidated income statement.*

Depreciation expenses of HK$11,020,000 (2015: HK$38,761,000) and HK$3,706,000 (2015: HK$4,459,000) were included in cost of sales and administrative expenses respectively.

8. INCOME TAX CREDIT

No Hong Kong profits tax has been provided as the Group had no estimated assessable profits arising in or derived from Hong Kong for both years.

	2016	2015
	HK$'000	*HK$'000*
Current tax – the PRC		
– Current year	**17**	7
– Over-provision in prior years	**–**	(1,704)
Deferred tax – the PRC		
– Current year	**(47,365)**	(101,502)
Income tax credit	**(47,348)**	(103,199)

9. DIVIDENDS

The board of directors did not recommend any payment of dividends during the year (2015: Nil).

10. LOSS PER SHARE

The calculations of basic loss per share attributable to the owners of the Company are based on the following data:

	2016	2015
	HK$'000	*HK$'000*
Loss for the year attributable to the owners of the Company for the purpose of basic loss per share	**(189,971)**	(492,568)
Number of shares	***'000***	*'000*
Weighted average number of ordinary shares for the purpose of basic loss per share	**3,834,905**	3,198,407

The calculation of basic loss per share is based on the loss attributable to the owners of the Company and the weighted average number of ordinary shares.

For the years ended 31 December 2016 and 2015, no adjustment has been made to the basic loss per share amount presented in respect of a dilution as the impact of the convertible bond outstanding had an anti-dilutive effect on the basic loss per share amount presented.

11. PROPERTY, PLANT AND EQUIPMENT

Oil Production:

During the year, provision for impairment loss on oil properties, furniture, office equipment and motor vehicles and construction in progress ("CIP") relating to the Oil Production CGU of HK$10,641,000 (2015: HK$32,617,000), HK$278,000 (2015: HK$494,000) and HK$105,000 (2015: HK$732,000), respectively, were recognised in profit or loss to write down to their recoverable amounts due to the decrease in the projected crude oil prices and amendments to the drilling and extraction schedules, totalling HK$11,024,000 (2015: HK$33,843,000).

Supply of Electricity and Heat:

For the purpose of impairment testing as at 31 December 2016, the recoverable amount of property, plant and equipment ("PPE") and prepaid land lease payments relating to the supply of electricity and heat business (the "Electricity and Heat CGU") was determined based on fair value less costs of disposal. This is a non-recurring fair value which has been determined by income approach. The key assumption used by management to determine the fair value less costs of disposal is that sales of Sunlight Rise Limited and its subsidiaries (the "Sunlight Group") (i.e the Electricity and Heat CGU) at a cash consideration of HK$1.5 million was completed on 17 March 2017 and the estimated fair value less costs of disposal was HK$420,000. As a result, reversal of impairment losses on buildings, plant and machinery, furniture and office equipment, CIP and prepaid land lease payments (note 12) of HK$6,536,000, HK$8,128,000, HK$584,000, HK$101,000 and HK$2,179,000 respectively were recognised in profit or loss to reflect their recoverable amounts (2015: impairment losses on buildings, plant and machinery, and CIP of HK$22,485,000, HK$25,713,000 and HK$420,000, respectively).

Oil and Liquefied Chemical Terminal:

Net book value of CIP consists of an amount of HK$860,373,000 (2015: HK$310,582,000) relating to the Group's new oil and liquefied chemical terminal facilities, which are currently under construction and will be depreciated once the property is completed and available for use. The estimated cost to completion of the property, and to which the Group is contractually committed, is HK$154,466,000 (2015: HK$587,704,000). Additions include HK$55,165,000 (2015: Nil) relating to interest capitalised during the year.

12. PREPAID LAND LEASE PAYMENTS

For the year ended 31 December 2016, reversal of impairment loss relating to the Electricity and Heat CGU of HK$2,179,000 was recognised in profit or loss to reverse to their recoverable amounts (note 11) (2015: impairment loss of HK$6,106,000).

13. INTANGIBLE ASSETS

For the purpose of impairment testing as at 31 December 2016, the recoverable amount of PPE, exploration and evaluation assets and interests in oil production sharing contract relating to the Oil Production CGU was determined based on value-in-use calculations, which are derived by using discount cash flow analysis.

During the year, total impairment loss of HK$177,962,000 (2015: HK$442,797,000) has been identified for the Oil Production CGU and is charged pro rata to the assets related to the Oil Production CGU. Impairment loss in respect of PPE, exploration and evaluation assets and interests in oil production sharing contract of HK$11,024,000 (2015: HK$33,843,000) (note 11), HK$85,000 (2015: HK$506,000) and HK$166,853,000 (2015: HK$408,448,000) respectively, were recognised as expenses in profit or loss as the assets' carrying amounts exceed their recoverable amounts.

As results of decrease in the projected crude oil prices and amendments to the drilling and extraction schedules, the carrying amount of the Oil Production CGU has been reduced to its recoverable amount of HK$414,780,000 (after impairment) as at 31 December 2016, any adverse change in the key assumptions used to calculate the recoverable amount would result in further impairment losses.

14. TRADE AND BILLS RECEIVABLES

The Group normally allows trading credit terms ranging from 30 to 120 days (2015: 30 to 120 days) to its established customers. Each customer has a maximum credit limit. For certain customers with long established relationship and good past repayment history, a longer credit period may be granted. Trade and bills receivables are non-interest bearing.

Ageing analysis of trade and bills receivables, based on the invoice date, is as follows:

	2016	2015
	HK$'000	*HK$'000*
1 – 90 days	**10,418**	13,600
91 – 120 days	**47**	–
121 – 365 days	**80**	12,463
Over 365 days	**18,159**	8,022
	28,704	34,085

At 31 December 2016 and 2015, there were no trade and bills receivables that were individually determined to be impaired. The Group did not hold any collateral over these balances.

Ageing analysis of trade and bills receivables that are past due but not impaired are as follows:

	2016	2015
	HK$'000	*HK$'000*
Over 60 days past due but not impaired	**18,239**	20,485

As at 31 December 2016, trade and bills receivables of HK$10,465,000 (2015: HK$13,600,000) were neither past due nor impaired. These related to the different customers for whom there was no recent history of default.

Trade and bills receivables that were past due but not impaired related to the local government and all were under the Electricity and Heat CGU. Based on past credit history, management believed that no impairment allowance was necessary in respect of these balances as there had not been a significant change in credit quality and the balances were still considered to be fully recoverable. The Group did not hold any collateral in respect of these balances.

15. TRADE PAYABLES

Trade payables were non-interest bearing and are normally settled on 60 days (2015: 60 days) terms.

Ageing analysis of trade payables, based on the invoice date, is as follows:

	2016	2015
	HK$'000	*HK$'000*
1 – 90 days	**2,068**	3,164
121 – 365 days	**1,174**	5,218
Over 365 days	**7,225**	2,790
	10,467	11,172

16. LITIGATIONS

(a) Transfer of the exploration licence

Details of litigations are set out in note 3(a)(iii).

(b) Injunction order to the holder of CB6 and CB7

Details of litigations are set out in note 3(a)(i).

17. EVENTS AFTER THE REPORTING DATE

On 30 December 2015, the Group entered into the sale and purchase agreement (the "Sale and Purchase Agreement") with the independent third party (the "Purchaser"), pursuant to which the Purchaser has conditionally agreed to acquire and the Group has conditionally agreed to sell the issued shares and the sale loan of Sunlight Rise Limited which holding 60% equity interest in Shanxi Zhong Kai Group Lingshi Heat and Power Company Limited ("Shanxi Zhong Kai Group Lingshi") at a consideration of HK$1,500,000, details of which are set out in the Company's announcements dated 30 December 2015, 29 March 2016 and 12 October 2016 and the Company's circular dated 17 February 2017. As the Sunlight Group was at net liabilities of HK$16,828,000 and the estimated fair value less cost of disposal was HK$420,000 as at 31 December 2016, reversal of impairment losses on PPE and prepaid land lease payments was HK$15,349,000 and HK$2,179,000 was recognised respectively.

On 7 March 2017, approvals from the Company's shareholders have been obtained and the disposal of the Sunlight Group has been completed on 17 March 2017.

EXTRACT OF THE INDEPENDENT AUDITOR'S REPORT

Disclaimer of Opinion

We do not express an opinion on the consolidated financial statements of the Group for the year ended 31 December 2016. Because of the significance of the matters described in the "Basis for Disclaimer of Opinion" section of our report, we have not been able to obtain sufficient appropriate audit evidence to provide a basis for an audit opinion on these consolidated financial statements and whether the consolidated financial statements have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

Basis for Disclaimer of Opinion

1. *Scope limitation - property, plant and equipment, intangible assets and deferred tax assets and liabilities*

As set out in notes 14, 17 and 29 to the consolidated financial statements, included in the consolidated statement of financial position as at 31 December 2016 are property, plant and equipment (the "PPE"), intangible assets (the "Intangible Assets") and net deferred tax liabilities with carrying amounts of HK$25,696,000, HK$389,084,000 and HK$47,497,000 respectively (2015: HK$46,167,000, HK$557,821,000 and HK$83,358,000 respectively). The PPE and the Intangible Assets are collectively referred to as the "Oil Production Assets" in this report. The Oil Production Assets relate to the operation of oil production business, pursuant to the oil production sharing contract (the "Songliao Contract") entered into with a state-owned enterprise engaged in oil exploration industry (the "State-owned Enterprise") to develop and produce crude oil in Liangjing Block on Songliao Basin in Jilin, the People's Republic of China (the "PRC"), details of which are set out in note 33 to the consolidated financial statements. The Songliao Contract was firstly entered into between the State-owned Enterprise and a company wholly owned by an individual ("Mr. A") and the Group subsequently acquired the Songliao Contract through the acquisition of the company firstly entering into the Songliao Contract in 2010.

As further disclosed in note 17, as at 31 December 2015 and 31 December 2016, the directors of the Company estimated the recoverable amount of the cash-generating unit to which the Oil Production Assets belong (the "Oil Produciton CGU"). As the carrying amounts of the Oil Production CGU exceeded its recoverable amount, impairment losses of HK$166,938,000 and HK$11,024,000 were recognised for the year ended 31 December 2016 on the Intangible Assets and the PPE respectively (2015: HK$408,954,000 and HK$33,843,000 respectively) ("Impairment"). In estimating the recoverable amounts in both years, the directors of the Company have assumed that the Songliao Contract will remain valid and the Group's oil production business will continue in operation throughout the Songliao Contract period.

As explained in note 3(a)(i) to the consolidated financial statements, in 2015, the directors of the Company found that Mr. A, the sole shareholder of the company firstly entering into the Songliao Contract at the relevant time, was formally charged by prosecution authorities in the PRC for illegal crime (the "Charge"), possibly involving allegations about improper conduct in obtaining the Songliao Contract. In the preparation of the consolidated financial statements for the years ended 31 December 2015 and 31 December 2016, the directors of the Company have obtained the legal opinions in respect of the Charge which states that there is no adjudication in respect of the Charge and it is not possible to estimate the outcome. The legal opinion also states that if Mr. A is found guilty for his suspected improper conduct in obtaining the Songliao Contract, this might render the Songliao Contract to become voidable and the State-owned Enterprise would be entitled to claim all economic benefits passed to the Group previously under the Songliao Contract from the Group. As a result, the Group may not be able to exercise its right under the Songliao Contract and its Intangible Assets and PPE may be derecognised. In addition, corresponding adjustment may also be required to adjust the related net deferred tax liabilities accordingly.

However, as at the date of this report, there is no adjudication in respect of the Charge and the legal opinion obtained by the Company does not indicate the estimated outcome of the Charge. As a result, we were unable to obtain sufficient appropriate audit evidence concerning (i) the validity of the Songliao Contract and therefore the ownership of the Oil Production Assets; (ii) whether the amount of Impairment was appropriately recognised; and (iii) whether any liabilities shall be recognised in the consolidated financial statements in respect of any claims to be initiated by the State-owned Enterprise. Any adjustments that might have been found to be necessary in respect of the above would have a consequential effect on the consolidated statement of financial position as at 31 December 2016, the consolidated income statement for the year then ended and the related elements making up the consolidated statement of changes in equity and the consolidated statement of cash flows. Because of the matters described above, together with the matter described in point 2 below, in relation to our audit of the consolidated financial statements for the year ended 31 December 2015, we did not express an opinion thereon.

2. Uncertainties relating to going concern

(i) The Group incurred a loss of HK$200,964,000 (2015: HK$531,976,000) for the year ended 31 December 2016; (ii) as at 31 December 2016, the Group had net current liabilities of HK$353,127,000 (2015: HK$104,913,000); (iii) as at 31 December 2016, included in current liabilities was the total outstanding construction costs of HK$420,716,000 (2015: HK$345,172,000), that are required to repay within one year after the reporting date, in which amounts of HK$319,177,000 (2015: HK$315,200,000) and HK$101,539,000 (2015: HK$29,972,000) are recognised under other payables and other borrowings respectively and the capital commitment for construction cost was HK$154,466,000 (2015: HK$587,704,000); and (iv) as at 31 December 2016, included in current liabilities was bank loan of HK$49,370,000 (2015: HK$41,300,000) that was overdue for repayments. These conditions, in the current year and in 2015, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

Notwithstanding the foregoing, the directors of the Company have prepared the consolidated financial statements on a going concern basis, the appropriateness of which depends upon the outcome of the underlying assumptions as detailed in note 3(a)(ii) to the consolidated financial statements which include: (i) the Songliao Contract continues to be valid and the Group continues its oil production business, which is the basis on which the directors prepared the cash flow forecast for the next twelve months after

31 December 2016; and (ii) the Group will settle the outstanding construction cost of HK$180,155,000. For the remaining balances of total construction costs, based on the good relationship with the contractors, the contractors will extend the repayment dates over twelve months after 31 December 2016.

However, if Mr. A is found guilty for his improper conduct in obtaining the Songliao Contract as mentioned in point 1 above, (i) the Songliao Contract may become invalid; (ii) the Group may not be able to carry out the business relating to oil production as stipulated under the Songliao Contract; and/or (iii) the State-owned Enterprise may be eligible to claim compensation for the economic benefits passed to the Group during the period of the Songliao Contract from the Group. As stated in the last paragraph of point 1 above, we are unable to obtain sufficient appropriate audit evidence concerning the validity of the Songliao Contract.

In respect of the Group's settlement of the outstanding construction cost, up to the date of approval of these consolidated financial statements, the Group has not obtained any written confirmations on the delayed payment date from the contractors. There were no alternative audit procedures that we can perform to obtain relevant audit evidence to assess the likelihood that these contractors would extend the repayment dates over twelve months after 31 December 2016.

Accordingly, we were unable to satisfy ourselves that whether it is appropriate to prepare the consolidated financial statements for the year ended 31 December 2016 on a going concern basis. Should the going concern basis be considered inappropriate, adjustments would have to be made to write down the carrying amounts of the Group's assets to their estimated realisable values, to provide for any further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

The directors of the Company also have prepared the consolidated financial statements for the year ended 31 December 2015 (the "2015 Consolidated Financial Statements") on a going concern basis with underlying assumptions similar to those adopted in 2016 as stated above. In our audit of the 2015 Consolidated Financial Statements, we were also unable to obtain sufficient appropriate audit evidence concerning the validity of the Songliao Contract and the viability of other assumptions. Together with the matter detailed in point 1 above, we did not express an opinion on the consolidated financial statements for the year ended 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

Operating Results

The Group is principally engaged in the oil production, the supply of electricity and heat and the oil and liquefied chemical terminal.

(i) Revenue

For the year ended 31 December 2016, the Group's record revenue was approximately HK$41 million (2015: HK$87 million), representing a decrease of approximately HK$46 million or approximately 53% as compared to the last year. The Group's revenue is contributed from oil production business and supply of electricity and heat business. No revenue has been generated from the Group's oil and liquefied chemical terminal since the construction works on the terminal and related facilities are still in progress.

(ii) Gross loss

Gross loss of the Group for the year ended 31 December 2016 was approximately HK$21 million (2015: HK$44 million). The gross loss arose from both the supply electricity and heat business and the oil production business.

Gross loss arising from the supply electricity and heat business is mainly caused by the decrease in supply of electricity. Without drawing conclusion on negotiation with the People's Government of Lingshi County (the "Lingshi Government"), Shanxi Zhong Kai Group Lingshi has maintained the workforce even the revenue decreased due to the notice issued by the Lingshi Government dated 23 April 2015 (the "Notice"). Gross loss from the oil production business is mainly attributable to the low selling price and sales volume of crude oil.

The Board believes that (1) after the disposal of the electricity and heat business, which was completed on 17 March 2017; (2) the crude oil price recovered from the bottom level, together with certain cost saving policies such as temporary close down of the less efficient oil wells and minimising of staff costs; and (3) the commencement of generating rental income from the Group's oil and liquefied chemical terminal, the Group's gross loss situation will no longer exist in coming years.

(iii) Loss attributable to the owners of the Company

The loss attributable to the owners of the Company for the year ended 31 December 2016 was approximately HK$190 million (2015: HK$493 million). The loss of the Group has decreased by approximately HK$303 million or approximately 61% as compared to last year. The loss was mainly resulted from (1) the gross loss of approximately HK$21 million; and (2) the impairment losses on PPE and intangible assets relating to the Oil Production CGU amounted to approximately HK$11 million and HK$167 million respectively. The loss was partially offset by the reversal of impairment losses on PPE and prepaid land lease payments relating to the Electricity and Heat CGU of approximately HK$15 million and HK$2 million respectively.

Business Review

Electricity and heat business

For the year ended 31 December 2016, Shanxi Zhong Kai Group Lingshi, in which the Group owns a 60% equity interest, generated revenue of approximately HK$22 million (2015: HK$47 million), a decrease of approximately 53% as compared to last year. The decrease in revenue was mainly due to the decrease in electricity consumption and there was no supply of heat energy during the year. In 2016, due to the Notice as further explained below, the supply of electricity to both government authority and local customers continued but with a limited scale.

The loss from the electricity and heat segment before any adjustments relating to the recoverable amount of the Electricity and Heat CGU amounted to approximately HK$16 million (2015: HK$35 million).

In the Notice, the Lingshi Government ordered Shanxi Zhong Kai Group Lingshi to shut down the operations of its 2 sets of power generating units before 30 June 2015, for the purposes of anti-pollution and emission reduction.

Oil business

In 2016, global economic recovery was slow and the growth rate of the Chinese economy has further slowed down. The demand in the petroleum market was weak and although the international crude oil price has improved, it is still at a low level. In the face of the complicated and harsh economic environment, the Group focused on lowering the costs and enhancing efficiency. The operating results before the impairment losses on PPE and intangible assets for the year maintained at the same level as compared with last year.

According to our original planning, we expected that in 2016 we would be able to extract approximately 15,000 metric tonnes of oil. However, the drilling and extraction schedule was delayed during the year due to several interruptions and unexpected circumstances. For the year ended 31 December 2016, we have extracted approximately 10,000 metric tonnes (2015: 17,000 metric tonnes) of oil.

It is not cost effective to drill production well at the current low oil price environment. Our technician has been analysing the data received from existing extraction activities in order to determine if new extraction method should be deployed to save cost. We are still negotiating with technical department of our partner, China National Petroleum Corporation ("CNPC"), and other local expertise in this study.

The results from operations and costs incurred in oil business are detailed as below. In 2016, the Group achieved a turnover of approximately HK$19 million (2015: HK$41 million), representing a decrease of 54% as compared with last year. The reportable segment loss of oil production before impairment losses on intangible assets and PPE for 2016 amounted to approximately HK$30 million (2015: HK$29 million). The loss was primarily due to the combined impact of the low level in both the selling price and the sales volume of crude oil.

Results from operations

	2016	2015
	HK$'000	*HK$'000*
Net sales to customers	**18,762**	40,675
Other income	**12**	23
Operating expenses	**(43,052)**	(55,798)
Depreciation	**(5,544)**	(14,076)
Impairment loss on property, plant and equipment	**(11,024)**	(33,843)
Impairment loss on intangible assets	**(166,938)**	(408,954)
Results from operations before income tax	**(207,784)**	(471,973)

Songliao Contract impairment

As at 31 December 2016, the Company reviewed the carrying amounts of its assets related to the Songliao Contract, and determined that impairment would be necessary. The impairment losses were mainly due to the slower growth rate in oil prices than expected and delays in the drilling and extraction schedules. The planned drilling and extraction schedules were delayed mainly due to the following factors:

- More time spent on the research on the detail structure of underground oil reserve;
- Further determination of the type of wells to be drilled;
- Insufficient funding to expand the production; and
- Environmental concern near the site area by the local authority.

Accordingly, the Company determined that the carrying amounts of the assets related to the Songliao Contract would likely not be recoverable based on the revised timing of future cash flows projected from the Songliao Contract.

In assessing the recoverable amount of the Oil Production CGU at 31 December 2016, the Company calculated the value-in-use derived by the discounted cash flow analysis to reflect deferral of development of the property by the revised price and cost considerations. The projected cash flows are based on the following key assumptions:

- Total estimated operating and construction costs of wells of the PRC oil field for the remaining terms of the Songliao Contract;
- The crude oil price projection basis by reference to market price of New York Mercantile Exchange WTI ("NYMEX WTI") at the end of 2016; and
- The discount rate by reference to market comparable.

The review on the carrying amounts of the Oil Production CGU resulted in total impairment losses of approximately HK$177,962,000 (2015: HK$442,797,000). The impairment losses have been recorded within operating expenses on the face of the consolidated income statement and relates to the Company's segment information in oil production segment.

Operation of liquid chemical terminal, storage and logistics facilities business

By end of 2015, the Group has injected RMB115 million (equivalent to approximately HK$136 million) to Shandong Shundong Port Services Company Limited (山東順東港務有限公司) ("Shundong Port") to obtain 51% equity interest in Shundong Port. Shundong Port owns two sea area use rights covering an aggregate area available for land-forming and reclamation construction of approximately 31.59 hectares in Dongying Port, Shandong Province, the PRC and permitting the construction of reclamation and land-forming for use in sea transportation and port facilities for a 50-years' period running from 13 November 2014 to 12 November 2064 and 23 February 2016 to 22 February 2066 respectively. During 2016, Shundong Port has not yet commenced business and is still in the stage of constructing the liquid chemical terminal, storage and logistics facilities (the "Port and Storage Facilities"). As at the 31 December 2016, Shundong Port has substantially completed the land-forming and reclamation construction of 27.71 hectares of land in Dongying Port.

Since Shundong Port has not yet commenced business, no revenue has been generated in 2016 and a segment loss of approximately HK$6 million was incurred from the oil and liquefied chemical terminal segment.

Financial Review

Liquidity, financial resources and capital structure

As at 31 December 2016, the Group had total assets of approximately HK$1,846 million (2015: HK$1,511 million), total liabilities of approximately HK$1,381 million (2015: HK$824 million), indicating a gearing ratio of 0.75 (2015: 0.55) on the basis of total liabilities over total assets. The current ratio of the Group for the year was 0.51 (2015: 0.79) on basis of current assets over current liabilities.

As at 31 December 2016, the Group had bank and other borrowings of approximately HK$214,627,000 and HK$140,290,000 respectively (2015: HK$41,300,000 and HK$42,505,000 respectively). The aggregate bank deposits and cash in hand of the Group were approximately HK$238,814,000 (2015: HK$238,282,000).

As at 31 December 2016, the convertible bonds outstanding principal amount of (i) HK$628,160,000, had been due on 31 December 2015 not carrying any interest with right to convert the convertible bonds into ordinary shares of the Company. The adjusted conversion price is HK$0.8 per share (subject to adjustments) and a maximum number of 785,200,000 shares may be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full; and (ii) HK$190,000,000 due on 15 September 2018 carrying interest of 5% per annum with right to convert the convertible bonds into ordinary shares of the Company. The conversion price is HK$0.158 per share (subject to adjustments) and a maximum number of 1,202,531,645 shares may be allotted and issued upon exercise of the conversion rights attached to the convertible bonds in full. During the year, no convertible bond was converted to ordinary shares of the Company.

In July 2015, the Group commenced legal actions against the holder(s) of the convertible bonds which were due on 31 December 2015. Details of the litigation can be referred to the Company's announcements dated 4 July 2015, 14 August 2015 and 24 November 2015, respectively.

Contingent liabilities

As at 31 December 2016, the Group did not have any significant contingent liabilities.

Capital and other commitments

The Group had capital and other commitments contracted but not provided for of approximately HK$155,167,000 (2015: HK$588,456,000) and HK$48,164,000 (2015: HK$50,622,000) respectively as at 31 December 2016.

Charges on assets

As at 31 December 2016, the Group's certain PPE of approximately HK$169,921,000 (2015: Nil), entire sea area use rights of approximately HK$103,987,000 (2015: Nil) and certain bank deposits of approximately HK$42,921,000 (2015: HK$22,000) were pledged for the Group's bills payables and finance lease liabilities.

Exchange exposure

The Group mainly operates in Hong Kong and PRC and the exposure in exchange rate risks mainly arises from fluctuations in the HK$ and Renminbi exchange rates. Exchange rate fluctuations and market trends have always been the concern of the Group. The policy of the Group for its operating entities operates in their corresponding local currencies to minimise currency risks. The Group, after reviewing its exposure for the time being, did not enter into any derivative contracts aimed at minimising exchange rate risks during the year. However, management will monitor foreign currency exposure and will consider hedging significant foreign currency exposure if necessary.

Employee information

As at 31 December 2016, the Group employed 421 full-time employees (2015: 432). The Group's emolument policies are formulated on the performance of individual employees and are reviewed annually in line with industry practice. The Group also provides provident fund schemes (as the case may be) to its employees depending on the location of such employees.

Future Plan and Prospects

Electricity and heat business

On 30 December 2015, Precious New Limited, a wholly-owned subsidiary of the Company, has entered into the sale and purchase agreement with an independent third party who has conditionally agreed to acquire and Precious New Limited has conditionally agreed to sell its shares in Sunlight Rise Limited, intermediate holding company of Shanxi Zhong Kai Group Lingshi, and the sale loan (the "Disposal"). The consideration for Disposal is HK$1,500,000 (subject to adjustment). The resolutions in relation to the Disposal was passed as ordinary resolutions in the extraordinary general meeting held on 7 March 2017, and has been completed subsequently on 17 March 2017. By this, the Group has ceased its supply of electricity and heat business.

Oil business

In 2017, the recovery of the global economy will remain highly uncertain, The crude oil price is likely to continue to keep at low levels but will be higher than that in 2016. Experienced the drop of approximately 10% recently, the crude oil price is expected to restart its growing trend soon. The Group will continue to improve extraction techniques in order to increase the overall efficiency. The Group will continue to place great emphasis on its scientific and geological researches, increase efforts to make breakthroughs on key techniques, strengthen the meticulous exploration of mature oil field, actively push forward venture exploration in oil field.

Taking into accounts the production capacity of existing wells and facilities and the demand in oil market, it is estimated that the annual oil production of the oil field of the Lower Cretaceous System Quantou Formation Third Member Yangdachengzi Layer which is situated at Liangjing Block of the Songliao Basin at Jilin Province of the PRC in 2017 would be approximately 10,000 metric tonnes (equivalent to 73,000 barrels of oil).

As disclosed in the Company's announcement dated 4 July 2015 in relation to the legal proceedings brought by, inter alia, the Company against, inter alia, the vendors of and other parties relating to the acquisition of our oil production business (the "Liangjing Project"). Since such litigation is only in a preliminary stage, based on the prevailing situation, the oil production business of the Liangjing Project of the Group is still in normal operation and production and the Group is inclined to continue the ongoing construction work and the related further investment in the Liangjing Project. The Board will closely monitor the operations and performance of the Group's oil production business under the Liangjing Project.

Operation of liquid chemical terminal, storage and logistics facilities business

Since the completion of the acquisition of 51% effective interest in Shundong Port by the Group in December 2015, the Group had been proactively promoting the continual construction of the Port and Storage Facilities. The original design of the Port and Storage Facilities anticipated four berths for chemical tankers of 10,000 tonnage and two berths for chemical tankers of 5,000 tonnage. With the effort, contribution and investment of the Group, the Group is now working towards the objective of upgrading two 10,000-tonnage berths to 20,000-tonnage and 30,000-tonnage, respectively. Based on the current progress and timetable, the first phase of construction of the Port and Storage Facilities is expected to complete and be ready for commercial operation during 2017.

On 24 October 2016, Shundong Port and an independent third party (the "Lessee") entered into a lease agreement (the "Lease Agreement"), pursuant to which Shundong Port agreed to lease the Port and Storage Facilities to the Lessee. The rent payable by the Lessee to Shundong Port for the Port and Storage Facilities under the Lease Agreement is RMB125 million (approximately HK$145 million) per annum, which shall be payable in twelve equal instalments on monthly basis in advance. Details of the Lease Agreement can be referred to the circular of the Company dated 17 February 2017.

The Lease Agreement provides an opportunity for the Company to generate a stable rental income from the Port and Storage Facilities, which is expected to expedite the Group's recovery of investment costs and to deliver reasonable return on capital to the Group on this project. In addition, the Lease Agreement is expected to improve the Group's asset and liabilities position in the long run, and to enhance the fund-raising capabilities of Shundong Port in the short run. It is currently expected that any cash derived from the rental income of the Lease Agreement will be retained by Shundong Port for its settlement of indebtedness, ongoing expansion and development plans.

Exploration and mining business

As disclosed in the Company's 2015 annual report, the Board found out that in 2010, the exploration licence held by QHFSMI had been transferred to Yuen Xian Company without the Company's knowledge, consent or approval.

Since then, the Group had commenced legal proceedings (the "Mining Litigations") against Yuen Xian Company with the view to invalidating the Change of Exploration Right Agreement dated 11 November 2009 (which caused the loss of the exploration license by QHFSMI) and seeking to regain the control of QHFSMI and the exploration license. In the past few years, the Group suspended its exploration and mining business pending the outcome of the Mining Litigations.

As announced by the Company on 11 June 2015, 12 June 2015 and 9 March 2016, the Higher People's Court of Qinghai Province had made a final judgment that the change of exploration right agreement was between QHFSMI and Yuen Xian Company was invalid and the Qinghai Province People's Procuratorate had expressed its "no-support" as to the review of the abovementioned final judgement, respectively. Following the conclusion of the Mining Litigations, the Company has appointed the legal advisers in the PRC to enforce the judgement to uphold the Group's right. In the event that the Group could regain the control of QHFSMI, the Group will be in the position to have access to the relevant exploration and mining license and thereafter the Group will perform due diligence review on the mining site. The Group is conducting regular re-assessment on the progress made by its legal advisers and the prospect of the Group's mining segment from time to time.

AUDIT COMMITTEE

The audit committee of the Company has reviewed with management the accounting principles and practices adopted by the Group, reviewed the risk management and internal control systems of the Group and discussed financial reporting matters including a review of the audited financial statements of the Company for the year ended 31 December 2016. The audit committee comprises three independent non-executive directors of the Company.

SCOPE OF WORK OF BDO LIMITED

The figures in respect of the Group's consolidated income statement, consolidated statement of comprehensive income, consolidated statement of financial position and the related notes thereto for the year ended 31 December 2016 as set out in the preliminary announcement have been agreed by the Group's auditor, BDO Limited, to the amounts set out in the Group's audited consolidated financial statements for the year. The work performed by BDO Limited in this respect did not constitute an assurance engagement in accordance with Hong Kong Standards on Auditing, Hong Kong Standards on Review Engagements or Hong Kong Standards on Assurance Engagements issued by the Hong Kong Institute of Certified Public Accountants and consequently no assurance has been expressed by BDO Limited on the preliminary results announcement.

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 year.

CORPORATE GOVERNANCE

In the opinion of the directors, the Company has complied with all the code provisions set out in the Code on Corporate Governance Code and Corporate Governance Report (the "CG Code") contained in Appendix 14 of the Listing Rules for the year ended 31 December 2016 except for:

(i) A.2.1 of the CG Code, the roles of chairman and chief executive officer (the "CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing. Since the positions of the chairman and CEO are vacated, the Company is still looking for a suitable candidate to fill the vacancy of chairman and CEO;

(ii) A.4.1 of the CG Code, non-executive directors should be appointed for a specific term, subject to re-election. For the year under review, all independent non-executive directors of the Company have not been appointed for a specific term but they are subject to retirement by rotation at least once every three years in accordance with the Company's Articles of Association;

(iii) E.1.2 of the CG Code, the Chairman of the Board should attend the annual general meeting (the "AGM"). However, the Chairman is vacated. One of the executive directors will attend the AGM and will be available to answer questions at the AGM; and

(iv) A.6.7 of the CG Code, independent non-executive directors should attend general meetings and develop a balanced understanding of the views of shareholders, Mr. Wang Jinghua and Mr. Lee Hoi Yan, the independent non-executive directors, were unable to attend the AGM of the Company held on 30 June 2016 due to their other prior engagements.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors by Listed Issuers (the "Model Code") set out in Appendix 10 of the Listing Rules. The Company has made specific enquiries with each directors and each of them confirmed that he had complied with the required standards set out in the Model Code throughout the year ended 31 December 2016.

PUBLICATION OF ANNUAL RESULTS AND ANNUAL REPORT

This annual results announcement is available for viewing on the websites of the Stock Exchange (www.hkex.com.hk) and the Company (www.energyintl.todayir.com). The annual report of the Company for 2016 containing all the information required by the Listing Rules will be despatched to shareholders and made available on the above websites in due course.

APPRECIATION

I take this opportunity to express our gratitude to the shareholders of the Company for their continued support and our Directors and our staff for their contribution to the Company.

By order of the Board
Energy International Investments Holdings Limited
Chan Wai Cheung Admiral
Executive Director

Hong Kong, 27 March 2017

As at the date of this announcement, the executive directors of the Company are Ms. Wang Meiyan, Mr. Chan Wai Cheung Admiral, Ms. Jin Yuping and Mr. Lan Yongqiang; and the independent non-executive directors of the Company are Mr. Lee Hoi Yan, Mr. Wang Jinghua and Mr. Fung Nam Shan.

* *For identification purpose only*