IDG Energy

IDG ENERGY INVESTMENT GROUP LIMITED
IDG 能源投資集團有限公司*

(Incorporated in Bermuda with limited liability)

(Stock Code: 650)

ANNOUNCEMENT OF INTERIM RESULTS FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017

The board (the "Board") of directors (the "Directors") of IDG Energy Investment Group Limited (the "Company") is pleased to announce the unaudited interim results of the Company and its subsidiaries (collectively the "Group") for the six months ended 30 September 2017. The interim results of the Group are unaudited but have been reviewed by the audit committee of the Company (the "Audit Committee").

FINANCIAL AND BUSINESS HIGHLIGHTS

During the six months ended 30 September 2017, the Group made strong progress in terms of financial results and business operations.

The Group achieved a gross profit of approximately HK$9.3 million for the six months ended 30 September 2017, as compared with a gross loss of approximately HK$13.6 million for the corresponding period in 2016. This change was primarily driven by (i) the increase of revenue as a result of the increase in crude oil prices and the net sales volume, and (ii) the decrease of the average unit cost due to the continuous control of production cost. The Group's EBITDA also increased to a profit of approximately HK$19.4 million for the six months ended 30 September 2017 from a loss of approximately HK$368.3 million for the corresponding period in 2016. This change was primarily attributable to (i) the increase in crude oil prices and the net sales volume, and (ii) no further recognition of significant listing expenses and related transaction costs as a result of the completion of the reverse takeover transaction (the "Reverse Takeover Transaction") in the 2016 financial year (the "FY2016").

The Group is also pleased to announce that the Ministry of Land and Resources of the PRC ("MOLR") has approved the application for the production permit covering Unit 2 and Unit 19 of Block 212, which is valid for 15 years and will expire in May 2032. It's a big milestone in Block 212's developing history which marks a new level of business of the Group. The Group expects a large increase in underground oil reserve of Block 212. The significant progress in exploration obtained in Block 212 shows excellent prospects of exploration and development, and provides a further long-term, stable and sustainable developing basis for the Group.

* *For identification purposes only*

The Group continued its drilling of wells for the six months ended 30 September 2017 and its oil production volume increased by approximately 30.6% to approximately 184,310 barrels as compared with that for the corresponding period in 2016. The Group's gross and net oil sales volume increased by approximately 28.0% to approximately 181,501 barrels and 145,201 barrels, respectively, and gross and net revenue increased by approximately 58.5% to approximately HK$67.5 million and HK$54.0 million, respectively, as compared with that for the corresponding period in 2016.

The Group has successfully developed a more diversified and balanced portfolio through selective investment regarding oil and gas assets at home and abroad.

On 28 July 2017, the Group completed the subscription of shares allotted and issued by 江西九豐能源有限公司 (Jiangxi Jovo Energy Company Limited*), which was principally engaged in clean energy businesses, including importing, processing and sale of the industrial products of liquified petroleum gas and liquified natural gas in China, for the consideration of RMB100 million (equivalent to approximately HK$115.2 million). The Group believes that this strategic investment will not only bring good financial returns to the shareholders but also provide great advantages for the Group to capture the opportunities in China's growing natural gas market.

On 14 August 2017 (local time in Houston, Texas, the US), the Group conditionally agreed to grant a term loan (the "Term Loan") to Stonehold Energy Corporation ("Stonehold") to finance the acquisition of certain oil and gas assets in the US and the subsequent operations of such assets by Stonehold. On 26 September 2017 (local time in Houston, Texas, the US), the initial payment of the Term Loan with an amount of US$165.0 million (approximately HK$1,291.1 million) was released to Stonehold and the acquisition of such assets by Stonehold was consummated. The Group believes that the Term Loan will not only provide the shareholders with considerable fixed income but also with a possible upside economic benefit from such assets in case that the assets are disposed of in a favourable future market condition.

For details of the financial results and business operations of the Group during the six months ended 30 September 2017 and the relevant analysis, please refer to the sections headed "Financial Results", "Business Review", "Review of Exploration, Development and Mining Activities" and "Review of Financial Results" in this interim results announcement.

FINANCIAL SUMMARY

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Revenue	**53,961**	34,038
Gross profit/(loss)	**9,323**	(13,571)
Loss for the period before deducting notional listing expense	**(24,637)**	(105,058)
Notional listing expense	**–**	(294,390)
Loss for the period	**(24,637)**	(399,448)
EBITDA *(Note)*	**19,389**	(368,287)
Adjusted EBITDA *(Note)*	**32,389**	(7,667)
Basic and diluted loss per share *(HK$ per share)*	**(0.01)**	(0.33)

	As at 30 September 2017	As at 31 March 2017
	HK$'000	*HK$'000*
	(Unaudited)	(Audited)
Property, plant and equipment	**612,026**	513,241
Cash and cash equivalents	**524,554**	1,134,521
Total assets	**2,700,411**	2,839,398
Total equity	**2,053,996**	2,077,364

Note:

Adjusted EBITDA refers to EBITDA adjusted to exclude non-recurring items, including listing expense and related transaction costs. The significant increase in EBITDA was primarily attributable to (i) the listing expense of approximately HK$294.4 million and related transaction costs of approximately HK$66.2 million recognized during the six months ended 30 September 2016, and there was no further recognition of such fees as a result of the completion of the Reverse Takeover Transaction; and (ii) the increase 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.

OPERATING SUMMARY

	Six months ended 30 September 2017	2016
Gross production volume (barrels)	**184,310**	141,145
Gross sales volume (barrels)	**181,501**	141,749
Net sales volume (barrels)	**145,201**	113,400
Average unit selling price (HK$ per barrel)	**372**	300
Average daily gross production volume (barrels)	**1,024**	784
Average unit production cost before depreciation and amortisation (HK$ per barrel)	**99**	196
Average unit production cost (HK$ per barrel)	**243**	335

	Total number of wells as at 30 September 2017
Oil producers	**108**
Water injectors	**23**
Bailing wells	**14**
Dry holes	**12**
Total number of wells	**157**

FINANCIAL RESULTS

CONSOLIDATED STATEMENT OF PROFIT OR LOSS

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 — UNAUDITED
(Expressed in Hong Kong dollars)

		Six months ended 30 September	
		2017	2016
	Note	***HK$'000***	*HK$'000*
Revenue	*5*	**53,961**	34,038
Cost of sales		**(44,638)**	(47,609)
Gross profit/(loss)		**9,323**	(13,571)
Administrative expenses		**(27,707)**	(11,254)
Taxes other than income tax		**(3,631)**	(2,397)
Exploration expenses, including dry holes		**(529)**	(353)
Listing expense and related transaction costs		**–**	(360,620)
Loss from operations		**(22,544)**	(388,195)
Finance income		**15,153**	15
Finance costs		**(11,890)**	(6,645)
Net finance income/(costs)	*6(a)*	**3,263**	(6,630)
Loss before taxation	*6*	**(19,281)**	(394,825)
Income tax	*7*	**(5,356)**	(4,623)
Loss for the period		**(24,637)**	(399,448)
Loss per share	*8*		
Basic and diluted		**HK$(0.01)**	HK$(0.33)

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

FOR THE SIX MONTHS ENDED 30 SEPTEMBER 2017 — UNAUDITED
(Expressed in Hong Kong dollars)

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Loss for the period	**(24,637)**	(399,448)
Other comprehensive income for the period (after tax and reclassification adjustments)		
Items that may be reclassified subsequently to profit or loss:		
Exchange differences on translation of:		
financial statements of overseas subsidiaries	**10,451**	(9,769)
Other comprehensive income for the period	**10,451**	(9,769)
Total comprehensive income for the period	**(14,186)**	(409,217)

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2017 — UNAUDITED
(Expressed in Hong Kong dollars)

	Note	At 30 September 2017 HK$'000	At 31 March 2017 HK$'000
Non-current assets			
Property, plant and equipment		**612,026**	513,241
Construction in progress		**7,950**	4,792
Intangible assets		**27,756**	27,051
Lease prepayments		**10,578**	10,268
Financial assets at fair value through profit or loss	*9*	**1,410,773**	–
Other non-current assets		**32,610**	33,044
		2,101,693	588,396
Current assets			
Inventories		**7,072**	4,060
Trade receivables	*10*	**39,991**	49,368
Other receivables	*10*	**18,426**	1,063,053
Financial assets at fair value through profit or loss	*9*	**8,675**	–
Cash and cash equivalents	*11*	**524,554**	1,134,521
		598,718	2,251,002
Current liabilities			
Trade and other payables	*12*	**283,946**	272,893
Bank and other borrowings		**–**	101,375
		283,946	374,268
Net current assets		**314,772**	1,876,734
Total assets less current liabilities		**2,416,465**	2,465,130

CONSOLIDATED STATEMENT OF FINANCIAL POSITION
AT 30 SEPTEMBER 2017 — UNAUDITED
(Expressed in Hong Kong dollars)

	Note	**At 30 September 2017** *HK$'000*	At 31 March 2017 *HK$'000*
Non-current liabilities			
Convertible bonds	*13*	**64,188**	116,541
Convertible note	*14*	**226,574**	222,615
Deferred tax liabilities		**19,558**	13,493
Provisions		**52,149**	35,117
		362,469	387,766
NET ASSETS		**2,053,996**	2,077,364
CAPITAL AND RESERVES			
Share capital	*15(b)*	**46,094**	43,646
Reserves		**2,007,902**	2,033,718
TOTAL EQUITY		**2,053,996**	2,077,364

NOTES TO THE UNAUDITED INTERIM FINANCIAL INFORMATION

(Expressed in Hong Kong dollars unless otherwise indicated)

1 GENERAL INFORMATION

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

On 29 July 2016 (the "Completion Date"), the Company completed a reverse takeover transaction (the "Reverse Takeover Transaction") which involved, among others, the acquisition by the Company of the entire equity interest of Xilin Gol League Hongbo Mining Development Company Limited 錫林郭勒盟宏博礦業開發有限公司 ("Hongbo Mining"), a limited liability company established in the People's Republic of China ("PRC"), with Titan Gas Technology Investment Limited ("Titan Gas") becoming the majority shareholder of the combined group as a result. Hongbo Mining is treated as the acquirer for accounting purpose. Accordingly, these interim condensed consolidated financial information have been prepared as a continuation of the financial statements of Hongbo Mining, and the results of the Company have been consolidated since 29 July 2016, the completion date of the Reverse Takeover Transaction.

During the six months ended 30 September 2017, the Company and its subsidiaries (the "Group") were principally engaged in the exploration, development, production and sale of crude oil in the PRC.

At 30 September 2017, the directors consider the immediate parent of the Group to be Titan Gas, incorporated in the British Virgin Islands, which is 84.22% held by Titan Gas Technology Holdings Limited. Titan Gas Technology Holdings Limited is owned as to 35.13% by Standard Gas Capital Limited, 49.14% by IDG-Accel China Capital II L.P. and IDG-Accel China Capital II Investors L.P., 8.05% by Mr. Wang Jingbo and 6.87% by Kingsbury International Holdings Co., Ltd., 0.73% by Zhang Weiwei and 0.08% by Bryce Wayne Lee.

2 BASIS OF PREPARATION

This interim financial information 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 24 November 2017.

The interim financial information has been prepared in accordance with the same accounting policies adopted in the Company's annual financial statements for the year ended 31 March 2017, except for the early adoption of HKFRS 9 issued in July 2014 and accounting policy changes that are expected to be reflected in the annual financial statements for the year ending 31 March 2018. Details of any changes in accounting policies are set out in Note 3.

The preparation of an interim financial information 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 information 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 Group since the annual financial statements for the year ended 31 March 2017. 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.

3 CHANGES IN ACCOUNTING POLICIES

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

The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period except for early adoption of HKFRS 9, *Financial Instruments*.

HKFRS 9, *Financial Instruments*

The Group has early adopted HKFRS 9, *Financial Instruments*, issued in July 2014 with a date of initial application of 1 January 2018. The requirements of HKFRS 9 represent a significant change from HKAS 39, *Financial instruments: Recognition and Measurement*.

As a result of the adoption of HKFRS 9, the Group adopted consequential amendments to HKFRS 7, *Financial instruments: Disclosures*, that are applied to disclosures about the year ending 31 March 2018 but generally have not been applied to comparative information.

(i) Classification of financial assets and financial liabilities

HKFRS 9 contains three principal classification categories for financial assets: measured at amortised cost, fair value through other comprehensive income (FVOCI) and fair value through profit or loss (FVTPL). The classification of financial assets under HKFRS 9 is generally based on the business model in which a financial asset is managed and its contractual cash flow characteristics. The standard eliminates the previous HKAS 39 categories of held to maturity, loans and receivables and available for sale. Under HKFRS 9, derivatives embedded in contracts where the host is a financial asset in the scope of the standard are never separated. Instead, the hybrid financial instrument as a whole is assessed for classification.

The adoption of HKFRS 9 has not had a significant effect on the Group's accounting policies for financial liabilities.

(ii) Impairment of financial assets

HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" (ECL) model. The new impairment model applies to financial assets measured at amortised cost, lease receivables and debt investments at FVOCI, but not to investments in equity instrument. Under HKFRS 9, credit losses are recognised earlier than under HKAS 39.

(iii) Effective date and transitional provisions

The general principle of HKFRS 9 is to apply the standard retrospectively in accordance with HKAS 8, *Accounting Policies, Changes in Accounting Estimates and Errors*. For the new classification and measurement requirements, the Group has elected for the exception from the requirement to restate comparative information as set out in the transitional provisions. As a result, the comparative information provided continues to be accounted for in accordance with the Group's previous accounting policy. For the new impairment model, changes in accounting policies resulting from the adoption of HKFRS 9 (2014) have been applied retrospectively. There is no difference in the carrying amounts of financial assets and financial liabilities resulting from the adoption of HKFRS 9 are recognised in accumulated losses as at 1 April 2017.

4 SEGMENT REPORTING

The Group's principal activities are 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 (excluded deferred tax assets and financial instruments) 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 crude oil supplied to the customers, net of value added tax. The Group's customer includes only one major customer with whom transactions have exceeded 10% of the Group's revenues.

6 LOSS BEFORE TAXATION

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

(a) Net finance income/(costs)

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Interest income	**2,703**	15
Net gain on financial assets at FVTPL	**5,799**	–
Changes in fair value on the derivative component of convertible note	**2,317**	–
Foreign exchange gain, net	**4,203**	–
Gain on modifications of terms of convertible bonds	**131**	–
Interest on bank and other borrowings	**(1,719)**	(2,600)
Interest expenses on convertible bonds and convertible note	**(9,085)**	(2,894)
Others	**(1,086)**	(1,151)
	3,263	(6,630)

(b) Other items

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Amortisation	**2,171**	2,126
Depreciation	**25,695**	18,918
Operating leases charges: minimum lease payments — buildings	**942**	571
Expenses incurred in relation to the Reverse Takeover Transaction		
— Listing expense	**–**	294,390
— Other transaction costs	**–**	66,230

7 INCOME TAX

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
Deferred tax		
— Origination and reversal of temporary differences	**5,356**	4,623

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

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

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

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

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 Company of HK$24,637,000 (six months ended 30 September 2016: HK$399,448,000) and the weighted average of 1,853,430,000 ordinary shares (six months ended 30 September 2016: 1,196,508,000 shares) in issue during the interim period.

(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 2017 and 2016 in respect of a dilution as the impact of the convertible bonds, convertible note and preferred shares had an anti-dilutive effect on the basic loss per share amounts presented.

9 FINANCIAL ASSETS AT FAIR VALUE THROUGH PROFIT OR LOSS

	At 30 September 2017 *HK$'000*	At 31 March 2017 *HK$'000*
Non-current assets		
Term Loan to Stonehold *(note (i))*	**1,294,323**	–
JOVO investment *(note (ii))*	**116,450**	–
	1,410,773	–
Current assets		
Trading securities	**5,717**	–
Bank financing products	**2,958**	–
	8,675	–

Notes:

(i) On 21 November 2016 (local time in Houston, Texas, the US), the Company entered into an Asset Purchase Agreement (the "APA") with Stonegate Production Company, LLC, Stonegate Dimmit Properties, LLC and Dimmit/La Salle Saltwater Disposal Company, LLC (collectively the "Stonegate Sellers"). Pursuant to the APA, the Company has conditionally agreed to acquire and the Stonegate Sellers have conditionally agreed to sell the oil and gas related assets of the Stonegate Sellers in the Eagle Ford region of South Texas, the US, at a purchase price of US$278 million (equivalent to HK$2,156 million) (subject to adjustments in accordance with the APA) (the "Stonegate Acquisition"). The APA was subsequently terminated by the parties upon mutual agreement and parties had been actively negotiating a transaction under an alternative structure regarding the assets of the Stonegate Sellers.

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

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

The Company and Stonehold have been considering and negotiating with certain commercial bank(s) for obtaining of a senior debt (the "Senior Debt") to refinance the funding having provided to Stonehold pursuant to the Credit Agreement. The Senior Debt will be of an amount up to US$100 million (approximately HK$782.5 million) and will be borrowed either directly by Stonehold or by a wholly owned subsidiary of the Company. The Company will be required to act as a guarantor in respect of the Senior Debt. Based on the negotiation progress, the Company expects that the Senior Debt will be entered into by the end of 2017.

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

JOVO is a limited liability company incorporated in the PRC which engages in clean energy businesses, including importing, processing and sale of the industrial products of liquified petroleum gas and liquified natural gas.

10 TRADE AND OTHER RECEIVABLES

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
Within 1 month	**16,750**	10,167
1 to 6 months	**23,241**	39,201
Trade receivables	**39,991**	49,368
Receivables of preferred shares	**–**	853,347
Others	**8,329**	6,817
Prepayment to suppliers	**10,097**	21,005
Performance deposit for Stonegate Acquisition *(as defined in note 9)*	**–**	181,884
	58,417	1,112,421

11 CASH AND CASH EQUIVALENTS

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
Deposit with banks	**–**	139
Cash at bank and in hand	**524,554**	1,134,382
	524,554	1,134,521

12 TRADE AND OTHER PAYABLES

	At 30 September 2017 HK$'000	At 31 March 2017 HK$'000
Within 1 year	**107,522**	55,503
Over 1 year but within 2 years	**13,264**	36,582
Over 2 years but within 3 years	**2,367**	33,226
Over 3 years	**20,204**	4,190
Trade payables	**143,357**	129,501
Taxes other than income tax	**9,654**	9,961
Guarantee deposit	**41,193**	39,424
Payable to Shanxi Yanchang Petroleum (Group) Company Limited (Yanchang Oil Mineral Administrative Bureau)	**73,751**	74,723
Others	**15,991**	19,284
	283,946	272,893

13 CONVERTIBLE BONDS

The convertible bonds originally had a total nominal value of HK$120,000,000 and interest at 1% per annum which is payable half year in arrears. The convertible bonds were convertible into the Company's ordinary shares at a conversion price of HK$0.0672 per share at any time before the maturity date.

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

The fair value of the liability component of the convertible bonds was estimated at the Completion Date was estimated 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 flows over the remaining terms of the convertible bonds at discount rate of 4.12% per annum that reflect the credit risk of the Company.

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

The modification resulted in the extinguishment of the financial liability of the convertible bonds and the recognition of new financial liability and equity component. The fair value of the new financial liability regarding the convertible bond revised portion immediately following the modification was approximately HK$63,421,000, which was determined using an effective interest rate of 10.88%.

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

14 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 the convertible note into the Company's 373,357,228 ordinary shares at a conversion price of HK$0.6696 per share. During the period starting from the first day of the 31st month following 29 July 2016, the CN holder has the right to request the Company to redeem the convertible note by paying the CN holder a redemption premium of HK$125,000,000 as well as the principal amount of HK$250,000,000.

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

The fair value of the liability component of the convertible note at the Completion Date was estimated 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 flows over the remaining terms of the convertible note at discount rate of 5.78% per annum that reflect the credit risk of the Company.

15 CAPITAL, RESERVES AND DIVIDENDS

(a) Dividends

No dividends were paid, declared or proposed during the six months ended 30 September 2017 and 2016.

(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 2016	8,000,000	80,000	–	–	8,000,000	80,000
Increase in authorised shares *(note (i))*	–	–	5,000,000	50,000	5,000,000	50,000
At 31 March 2017 and 30 September 2017	8,000,000	80,000	5,000,000	50,000	13,000,000	130,000
Issued, paid or payable:						
At 1 April 2016	347,326	3,473	–	–	347,326	3,473
Allotment and issuance of shares *(note (ii))*	1,269,415	12,694	2,747,909	27,479	4,017,324	40,173
At 31 March 2017	1,616,741	16,167	2,747,909	27,479	4,364,650	43,646
Conversion of convertible bonds	344,754	3,448	–	–	344,754	3,448
Adjustment of unpaid preferred shares	–	–	(100,000)	(1,000)	(100,000)	(1,000)
Conversion of preferred shares *(note (iii))*	2,259,540	22,595	(2,259,540)	(22,595)	–	–
At 30 September 2017	4,221,035	42,210	388,369	3,884	4,609,404	46,094

Notes:

(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. The total cash consideration for the subscription is HK$2,690,000,000, of which HK$2,626,388,000 have been received as at 30 September 2017 and the remaining consideration receivables of HK$63,612,000 was due from Aquarius Growth Investment Limited ("Aquarius"). Mr. Wang Jingbo is the director of Aquarius and holds a 9% equity interest in Aquarius. As at 28 September 2017, the board of directors approved the cancellation and forfeiture of relevant 100,000,000 unpaid preferred shares and reversed the above receivable due from Aquarius.

(iii) During the reporting period, total number of 2,259,540,023 preferred shares have been converted into 2,259,540,023 ordinary shares of the Company.

(iv) Key terms of the preferred shares

- 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.

16 COMMITMENT

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

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
Contracted, but not provide for:		
— property, plant and equipment	**–**	28,553
— future funding under the Credit Agreement	**38,275**	–
	38,275	28,553

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

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
Within 1 year	**1,317**	1,841
After 1 year but within 5 years	**–**	365
	1,317	2,206

17 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	
	2017	2016
	HK$'000	*HK$'000*
Short-term employee benefits	**4,082**	1,223
Post-employment benefits	**109**	50
	4,191	1,273

(b) Transactions with other related parties

Apart from the transactions disclosed elsewhere in this interim financial information, the Group had the following material transactions with related parties during the reporting period.

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
With former holding company and fellow subsidiaries		
— advances received	**–**	(31)
— repayment of advances	**–**	3,549
— rental expense	**–**	317
— increase in net payables	**–**	(317)
With the immediate holding company		
— increase in net payables	**–**	(1,109)
— interest expense accrued on the convertible bond	**(484)**	–
— interest paid on the convertible bond	**1,004**	–

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

	At 30 September 2017	At 31 March 2017
	HK$'000	*HK$'000*
Trade and other payables		
— immediate holding company	**130**	650
Convertible bond		
— immediate holding company	**64,188**	94,042

BUSINESS REVIEW

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

In the first half of the 2017 financial year ("FY2017"), the Group was principally engaged in the exploration, development, production and sale of crude oil in the PRC.

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

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

In the first half of FY2017, the upstream oil and gas industry experienced a substantial business cyclical upturn. The Brent Crude oil price rebounded from the average price of US$46 per barrel (equivalent to HK$357 per barrel) in the first half of FY2016 to US$51 per barrel (equivalent to HK$398 per barrel) in the first half of FY2017, and as of 30 September 2017, it has reached US$56.8 (equivalent to HK$444 per barrel). In view of the optimistic oil price trend, the Group drilled 19 wells during the first half of FY2017 (including 3 wells which were started drilling at the end of March 2017), 18 of which were successfully completed and 1 of which was pending for completion as at 30 September 2017.

All the 18 completed wells drilled in the first half of FY2017 had achieved the anticipated target formations with a success rate of 100%. The new exploration well Y9-9 gained 112 meter oil layer which is the thickest oil layer of all the wells in Block 212. The average effective thickness of mixed layers of the 18 wells reached its historical maximum in Block 212.

As a result, the Group's oil production volume increased by approximately 30.6% to approximately 184,310 barrels; gross and net oil sales volume increased by approximately 28.0% to approximately 181,501 barrels and 145,201 barrels, respectively, and gross and net revenue increased by approximately 58.5% to approximately HK$67.5 million and HK$54.0 million, respectively, compared with the first half of FY2016.

During the reporting period, the Group continued to make strong operational progress, reduce the operating costs and improve production efficiency. As a result, the average unit production cost decreased by HK$92 per barrel, or approximately 27.5%, from HK$335 per barrel for the six months ended 30 September 2016 to HK$243 per barrel for the six months ended 30 September 2017. Accordingly, the average unit production cost before depreciation and amortization decreased by HK$97 per barrel, or approximately 49.5%, from HK$196 per barrel (equivalent to US$25 per barrel) for the six months ended 30 September 2016 to HK$99 per barrel (equivalent to US$13 per barrel) for the six months ended 30 September 2017.

Use of proceeds from the Subscription and the Convertible Note Subscription

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

1. a subscription of certain ordinary shares and preferred shares issued by the Company to Titan Gas and other subscribers (the "Subscription"); and

2. a subscription of certain convertible note (the "Convertible Note") issued by the Company to League Way Ltd. (the "CN Subscription").

The following table summarises the intended use of proceeds and the actual use of proceeds as at 30 September 2017:

Transaction	Gross proceeds (HK$ million)	Amount received as at 30 September 2017 (HK$ million)	Amount receivable as at 30 September 2017 (HK$ million)	Intended use of proceeds as disclosed in the circular for the Reverse Takeover Transaction dated 29 June 2016 (the "RTO Circular")	Intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017)	Actual use of proceeds as at 30 September 2017
Subscription	2,690	2,626 *(Note 1)*	Nil *(Note 1)*	— approximately HK$60 million for the payment of the transaction expenses — approximately HK$665 million for the payment of the consideration for the acquisition of the entire equity interest of Hongbo Mining — approximately HK$400 million to finance the repayment of Hongbo Mining's payables and borrowings — approximately HK$800 million to finance the development plan of the currently explored areas in Block 212 — approximately HK$450 million for exploration and development of other areas in Block 212 — approximately HK$115 million to finance the operating expenses of Hongbo Mining as well as the restructured Group — 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	— approximately HK$66 million for the payment of the transaction expenses — approximately HK$652 million for the payment of the consideration for the Acquisition — approximately HK$400 million to finance the repayment of Hongbo Mining's outstanding payables and borrowings — approximately HK$800 million to finance the development plan of the currently explored areas in Block 212 *(Notes 1 and 2)* — approximately HK$111 million to finance the operating expenses of Hongbo Mining as well as the restructured Group *(Note 2)* — approximately HK$661 million for expanding the business of the Group through investment in other oil and gas companies or projects *(Note 2)*	— approximately HK$66 million was used to settle the payment of the transaction expenses — approximately HK$652 million was used to settle the payment of the consideration for the Acquisition — approximately HK$133 million was used for repayment of Hongbo Mining's outstanding payables and borrowings — approximately HK$75 million was used for the development work in Block 212 *(Note 1)* — approximately HK$119 million was used for the subscription of shares in Jiangxi Jovo Energy Company Limited* (江西九豐能源有限公司) and the transaction expenses; — approximately HK$1,087 million was used in respect of the provision of the Term Loan *(Note 2)* — approximately HK$7 million was used for the general working capital of the restructured Group

Transaction	Gross proceeds (HK$ million)	Amount received as at 30 September 2017 (HK$ million)	Amount receivable as at 30 September 2017 (HK$ million)	Intended use of proceeds as disclosed in the RTO Circular	Intended use of proceeds (after the change as announced on 8 March 2017 and the further change as announced on 27 September 2017)	Actual use of proceeds as at 30 September 2017
CN Subscription	250 (being the principal amount of the Convertible Note)	250	Nil	— 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 — approximately HK$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the restructured Group	— approximately HK$200 million to expand the restructured Group's business by investment in other oil and gas companies or projects *(Note 2)* — approximately HK$50 million to finance the operations of Hongbo Mining and to be used as general working capital of the restructured Group	— approximately HK$200 million was used in respect of the provision of the Term Loan *(Note 2)* — approximately HK$50 million was used for the general working capital of the restructured Group

Note 1: On 29 July 2016, as part of the Subscription, the Company issued a total number of 443,369,176 preferred shares to Aquarius Growth Investment Limited ("Aquarius Investment") (the "Aquarius Subscription"), among which, 343,369,176 preferred shares were fully-paid and 100,000,000 preferred shares were partially-paid (the "Unpaid Preferred Shares"). With respect to the Unpaid Preferred Shares, Aquarius Investment partially paid an amount of HK$3,348,000 (the "Partial Paid Amount") and an outstanding amount of HK$63,612,000 remained unpaid, which became due and payable on 28 July 2017. On 28 September 2017, the Unpaid Preferred Shares, i.e., the whole of the 100,000,000 preferred shares, with the amount of HK$66,960,000 were forfeited and cancelled. As agreed by the Company and Aquarius Investment, the Partial Paid Amount will not be refunded to Aquarius Investment and the Board has sole discretion on the use of the Partial Paid Amount. As at 30 September 2017, save as the outstanding amount of HK$63,612,000 with respect to the aforesaid cancelled and forfeited preferred shares, the Company had received all proceeds from the Subscription. In light of such shortfall in the amount of proceeds received as compared to that contemplated at the time of the Subscription, taking into account the actual utilization of proceeds and the circumstances of the Group's operations, the Company has decided that a total amount of HK$736.39 million from the proceeds, being HK$800 million minus HK$63.61 million, be used to finance the development plan of the currently explored areas in Block 212. As at 30 September 2017, an amount of HK$75 million had been utilized with a balance of HK$661.39 million under such use. In view of the development plan of the currently explored areas of Block 212 and the funding requirement for its underlying capital and operating expenditures, the Board believes that such balance is sufficient for the underlying capital and operating expenditure of the development of the currently explored areas in Block 212 and such adjustment will not have any adverse impact on the business plans and operations of the Group.

Note 2: As disclosed in the section below headed "Investment regarding oil and gas assets in the US", on 14 August 2017 (local time in Houston, Texas, the US), the Company and Think Excel (a wholly-owned subsidiary of the Company) entered into the Credit Agreement with Stonehold, pursuant to which, the Company and Think Excel have conditionally agreed to grant the Term Loan to Stonehold. In order to finance the Term Loan under the Credit Agreement, the Company has made the following arrangements to the use of proceeds (after reallocation as announced on 8 March 2017):

(1) enrich the contents of the use of "Acquisition and development of other oil and gas companies or projects" to "Investment in other oil and gas companies or projects, including but not limited to acquisition and development, equity or debt investment and other forms of investment that the Company considers appropriate and in line with the Group's business strategy"; and

(2) temporarily use the unutilized proceeds of (i) an amount of HK$532 million planned to be used for the development of Unit 2 and Unit 19 of Block 212 which are not in immediate use and (ii) an amount of HK$60.5 million planned to be used for working capital which are not in immediate use for making the payment under the Term Loan on closing of the Stonegate Acquisition and replenish them with repayment from Stonehold after its obtaining of further financing, which is expected to take place by the end of 2017.

For further details of the change in use of proceeds, the entering into of the Credit Agreement and the further change in use of proceeds, please refer to the section headed "Investment regarding oil and gas assets in the US" below and the announcements of the Company dated 8 March 2017, 15 August 2017 and 27 September 2017 respectively published on the website of the Stock Exchange (http://www.hkexnews.hk/).

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

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

Investment regarding oil and gas assets in the US

As one of its existing strategies, the Group has widen its global footprint and has successfully developed a more diversified and balanced portfolio through selective investment regarding oil and gas assets in the US during the first half of FY2017.

On 21 November 2016 (local time in Houston, Texas, the US), the Company entered into an Asset Purchase Agreement (the "APA") with Stonegate Production Company, LLC, Stonegate Dimmit Properties, LLC and Dimmit/La Salle Saltwater Disposal Company, LLC (collectively the "Stonegate Sellers"). Pursuant to the APA, the Company has conditionally agreed to acquire and the Stonegate Sellers have conditionally agreed to sell the oil and gas related assets of the Stonegate Sellers in the Eagle Ford region of South Texas, the US, at a purchase price of US$278 million (equivalent to HK$2,156 million) (subject to adjustments in accordance with the APA) (the "Stonegate Acquisition"). The APA was subsequently terminated by the parties upon mutual agreement and parties had been actively negotiating a transaction under an alternative structure regarding the assets of the Stonegate Sellers.

On 14 August 2017 (local time in Houston, Texas, the US), the Company and Think Excel Investments Limited ("Think Excel"), a wholly-owned subsidiary of the Company, entered into a credit agreement (the "Credit Agreement") with Stonehold, pursuant to which, the Company and Think Excel have conditionally agreed to grant the Term Loan to Stonehold for the purpose of financing the acquisition of the Target Assets (as defined below) and the subsequent operations of such assets by Stonehold. Stonehold is a company wholly owned and solely controlled by Breyer Capital L.L.C., which is a globally renowned venture capital and private equity investor whose portfolio investments include, among others, Facebook, Legendary, Etsy, and Marvel Entertainment. The principal amount of the Term Loan shall not exceed (i) the initial payment with an amount of US$165.0 million (approximately HK$1,291.1 million) on 26 September 2017; (ii) thereafter, US$10 million (approximately HK$78.3 million); and (iii) any guarantee payment made by the Company and Think Excel to Stonehold in respect of a senior debt to be obtained from commercial bank(s) (the "Senior Debt"). The unpaid principal amount from time to time shall bear interest at the rate of 8.00% per annum (after the making of or the allocation of any applicable withholding tax), with an additional interest of an amount equal to 92.5% of the disposal proceeds received or recovered by Stonehold in respect of disposal of the Target Assets (as defined below) after deducting outstanding principals and interests pursuant to the Credit Agreement, as well as fees, costs and expenses reasonably incurred by Stonehold with respect to such disposal, if applicable, pursuant to the terms of the Credit Agreement. The Term Loan shall be payable to the Company and Think Excel in full on the maturity date, which falls 10 years after 26 September 2017. The Term Loan is secured by a second ranking security in respect of all the assets subject to the Senior Debt, if applicable, which will be created and perfected in favour of the Company and Think Excel, provided that the security interest created in favour of the Company and Think Excel shall constitute a first ranking security over all the assets and equity interests of Stonehold until the incurrence of the Senior Debt. The Senior Debt will be of an amount up to US$100 million (approximately HK$782.5 million) and based on the negotiation progress, the Company expects that it will be entered into by the end of 2017. Save for the initial payment of US$165.0 million under the Term Loan, as at the date of this interim results announcement, the Company and Think Excel have not made any other payment under the Term Loan to Stonehold.

On the same date, Stonehold entered into an acquisition agreement (the "Acquisition Agreement") with Stonegate, pursuant to which, Stonegate has conditionally agreed to sell and Stonehold has conditionally agreed to purchase certain oil and gas related assets (the "Target Assets"). The Target Assets form part of the assets originally agreed to be purchased by the Company under the Stonegate Acquisition. All Target Assets are non-operated oil and gas assets of Stonegate.

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

The Company believes that the Term Loan provides its shareholders not only with considerable fixed income but also with a possible upside economic benefit from the Target Assets in case that the assets are disposed of in a favourable future market condition.

For details of the Stonegate Acquisition, please refer to the announcements of the Company dated 22 November 2016, 31 March 2017, 28 April 2017 and 3 August 2017, 11 August 2017 and 13 August 2017, and the circular of the Company dated 9 March 2017 published on the website of the Stock Exchange (http://www.hkexnews.hk/).

For details of the Term Loan and the Credit Agreement, please refer to the announcements of the Company dated 15 August 2017 and 27 September 2017, and the circular of the Company dated 29 September 2017 published on the website of the Stock Exchange (http://www.hkexnews.hk/).

Investment regarding natural gas business along the industry chain

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

In the first half of FY2017, the Group has stepped into natural gas industry with focus on Chinese domestic market as it strongly believes that natural gas will be the most attractive sector of energy in China. From January 2017 to September 2017, natural gas consumption in China has increased by 18.4% as compared to that of last year. During the period of China's 13th five-year plan (2016-2020), the Group will be continuously searching for investment opportunities in order to capture the opportunities brought by the growing Chinese natural gas market.

On 28 July 2017, Valuevale Investment Limited, a wholly-owned subsidiary of the Company, completed the subscription of shares allotted and issued by 江西九豐能源有限公司 (Jiangxi Jovo Energy Company Limited*), which was principally engaged in clean energy businesses, including importing, processing and sale of the industrial products of liquified petroleum gas and liquified natural gas in the PRC, for the consideration of RMB100 million (equivalent to approximately HK$115.2 million).

The Company believes that this strategic investment will not only bring good financial return for its shareholders but also provide great advantages for the Company to participate in the satisfaction of the rapidly growing need of natural gas in China.

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.

For details of the above subscription, please refer to the Company's voluntary announcements dated 17 July 2017 and 31 July 2017 published on the website of the Stock Exchange (http://www.hkexnews.hk).

REVIEW OF EXPLORATION, DEVELOPMENT AND MINING ACTIVITIES

Under the exploration and production cooperation contract ("EPCC") entered into between Hongbo Mining and 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 together cover a region of 591 km^2 in East Ujimqin Banner and West Ujimqin Banner, Xilin Gol League, Inner Mongolia of the PRC (the "Area"); the crude oil produced from the Area, which belongs to Yanchang, is sold by Hongbo Mining (as entrusted by Yanchang) to the customers designated by Yanchang; and Hongbo Mining and Yanchang are entitled to share 80% and 20% of the sale proceeds (net of any sales related taxes). Yanchang holds the mineral right in respect of the Area pursuant to two exploration permits granted to it by MOLR in 2008 (in respect of Block 378) and 2009 (in respect of Block 212). The current exploration permit of Yanchang in respect of Block 212 will expire on 5 March 2019, and the current exploration permit of Yanchang in respect of Block 378 expired on 9 November 2017, with the new permit being applied. Both exploration permits are renewable after expiry for terms of two years each time.

For the past few years, the Group has carried out in-depth geophysical and geological studies in Block 212 based on 156 existing wells and 3D seismic data. Pilot production of oil has focused on five fault compartments, which are collectively referred to as Unit 2 and Unit 19. The Group is pleased to announce that MOLR has approved the application for the production permit covering Unit 2 and Unit 19, which is valid for 15 years and will expire in May 2032. It's a big milestone in Block 212's developing history which marks a new level of business of the Group.

During the drilling of new wells in the first half of FY2017, 4 new oil-bearing regions and 9 oil layers are discovered in the southwest of the Block 212. 3 of the 9 oil layers are the new breakthroughs in Block 212. The Group expects a large increase in underground oil reserve of Block 212 accordingly. The significant progress in exploration obtained in Block 212 shows excellent prospects of exploration and development, and provides a further long-term, stable and sustainable developing basis for the Group.

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

	Summary of expenditures incurred for the six months ended 30 September			
	2017		2016	
	Number	**Cost *(HK$'000)* (Unaudited)**	Number	Cost *(HK$'000)* (Unaudited)
Wells drilled during the period				
Dry holes	**–**	**–**	–	–
Oil producers *(Note)*	**19**	**83,525**	3	10,845
Total	**19**	**83,525**	3	10,845
Fracturing workover	**–**	**–**	13	9,193
Geological and geophysical costs	**–**	**529**	–	353

Note:

During the first half of FY2017, the Group drilled 19 wells (including 3 wells which were started drilling at the end of March 2017), 18 of which were successfully completed and 1 of which was pending for completion as at 30 September 2017.

The above information relates to Block 212. As at 30 September 2017, the Group had completed the drilling of one exploration well in Block 378, but no commercial oil or gas was found. No resources have been estimated for Block 378.

OUTLOOK

The oil price experienced a two-year downturn since 2014 and rebounded since last year. The Brent Crude oil price rebounded to US$56.8 per barrel (equivalent to HK$444 per barrel) on 30 September 2017. During the first half of FY2017, the oil price dropped to the lowest point of US$45.1 per barrel (equivalent to HK$315.8 per barrel) on 21 June 2017, and then rose to US$58.4 per barrel (equivalent to HK$456.3 per barrel) on 25 September 2017, with continued volatile swings. The market generally expects the mid and long term oil price to recover gradually.

After the efforts of the Organization of the Petroleum Exporting Countries (OPEC) to reduce its output since the beginning of 2017 and extend such output cut in mid-2017, the quarterly global inventory balance in the second quarter of 2017 showed a deficit despite a tiny build in the first quarter of 2017. In the Organisation for Economic Co-operation and Development (OECD) countries, the five-year average stock overhang was down to 170 million barrels in September 2017 from 318 million barrels at the end of January 2017 and the oil stocks have fallen since the beginning of 2017. Recently the market has responded positively, as Brent price has rebounded to above US$60 on 27 October 2017 for the first time in the past three years. Looking into 2018, we see a more balanced oil market on supply and demand even if the OPEC will not further extend the output cut.

In FY2016, the Group achieved a major breakthrough on the newly drilled Y9-1 well, which was one of the highest daily production wells in Block 212. Its high production volume reflected a large scale of underground oil reserves. The Group studied the production statistics of the Y9-1 well and evaluated its impact on the drilling plan for new wells. Accordingly, the Group drilled 19 wells during the first half of FY2017, which discovered 4 new oil-bearing regions and 9 oil layers in the southwest of Block 212. 3 oil-bearing regions of the 9 oil layers are the new breakthroughs in Block 212. The Group expects a large increase in proved geological resources of Block 212 in FY2017. The significant progress in exploration obtained in Block 212 shows excellent prospects of exploration and development, and provides a further long-term, stable and sustainable developing basis for the Group. In an overall plan, the Group will adopt a stable output strategy and is prepared to invest a large amount of capital expenditure for further drilling and fracturing plan, based on the international oil market trend.

During the first half of FY2017, the Group has followed its existing strategies to widen its global footprint and has developed a more diversified and balanced energy industry portfolio through investments in overseas oil and gas assets in the US and liquified natural gas related business in the PRC.

The Board is of the view that the recent market momentum has made the natural gas industry an attractive sector of energy and has presented great investment opportunities for market players.

The Group will continue to capture investment opportunities both domestically and globally and evaluate the market condition from time to time to decide the most suitable fund raising methods which may include leveraging both equity and/or debt markets, as well as any other alternative fund raising methods, to satisfy the capital needs for assets investment and management. Given the Group's expertise in the oil and gas industry, the Board believes that the Group is well positioned to develop quickly when attractive assets become available. The Group endeavors to present a unique investment opportunity for its shareholders to gain exposure to a diversified, top quality global oil and gas asset portfolio.

MAJOR RISK MANAGEMENT

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

Oil Price risk

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

Currency risk

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

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

Liquidity risk

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

Interest rate risk

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

REVIEW OF FINANCIAL RESULTS

Comparing six months ended 30 September 2017 to six months ended 30 September 2016

Revenue

The Group's revenue increased by approximately HK$19.9 million, or approximately 59%, from approximately HK$34.0 million for the six months ended 30 September 2016 to approximately HK$53.9 million for the six months ended 30 September 2017.

The Group's crude oil is priced mainly with reference to Brent Crude oil prices. The increase was mainly due to the increase in crude oil prices and the Group's net sales volume. The average unit selling price of the Group's crude oil increased to approximately HK$372 per barrel for the six months ended 30 September 2017 from HK$300 per barrel for the six months ended 30 September 2016, which was consistent with the trend of global oil prices. The average Brent Crude oil price for the six months ended 30 September 2017 increased to approximately HK$398 per barrel as compared to approximately HK$357 per barrel for the six months ended 30 September 2016. The Group's net sales volume increased to approximately 145,201 barrels for the six months ended 30 September 2017 from approximately 113,400 barrels for the six months ended 30 September 2016, which was mainly due to more wells drilled during the six months ended 30 September 2017. For further details on the increase 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$3.0 million, or approximately 6%, from approximately HK$47.6 million for the six months ended 30 September 2016 to approximately HK$44.6 million for the six months ended 30 September 2017, though the gross production volume and gross sales value increased by 43,165 barrels and 39,752 barrels, or approximately 30.6% and 28% respectively.

The decrease of cost of sales was primarily attributable to the reduction in extraction costs mainly for the strong operational progress made and the improvement of production efficiency. As a result, the average unit production cost decreased by HK$92 per barrel, or approximately 27.5%, from HK$335 per barrel for the six months ended 30 September 2016 to HK$243 per barrel for the six months ended 30 September 2017. Accordingly, the average unit production cost before depreciation and amortization decreased by HK$97 per barrel, or approximately 49.5%, from HK$196 per barrel (equivalent to US$25 per barrel) for the six months ended 30 September 2016 to HK$99 per barrel (equivalent to US$13 per barrel) for the six months ended 30 September 2017.

Gross profit/(loss)

The Group recorded gross loss of approximately HK$13.6 million for the six months ended 30 September 2016 and gross profit of approximately HK$9.3 million for the six months ended 30 September 2017, which was primarily driven by (i) the increase of revenue as a result of the increase of average unit selling price of crude oil and net sales volume, and (ii) the decrease of the average unit cost due to the continuous control of production cost.

Administrative expenses

The Group's administrative expenses increased by approximately HK$16.4 million, from approximately HK$11.3 million for the six months ended 30 September 2016 to HK$27.7 million for the six months ended 30 September 2017. The increase in administrative expenses was primarily due to the one-off professional services expense of HK$13.0 million incurred during the six months ended 30 September 2017 in relation to the investment regarding the Target Assets in the US.

Taxes other than income tax

The Group's taxes other than income tax increased by approximately HK$1.2 million, or approximately 50%, from approximately HK$2.4 million for the six months ended 30 September 2016 to approximately HK$3.6 million for the six months ended 30 September 2017, which was mainly due to the increase in resources tax levied on the sale of crude oil primarily attributable to the rise of revenue.

Exploration expenses, including dry holes

The Group explored 19 wells in Block 212 (18 completed and 1 pending for completion) during the first half of FY2017, 3 of which are exploration wells. Since all the 18 completed exploration wells were successfully competed and 100% converted to production wells, there was no dry holes during this period.

The Group's exploration expenses remained stable at approximately HK$0.4 million and approximately HK$0.5 million for the six months ended 30 September 2016 and 2017, respectively.

Listing expense and related transaction costs

The Group recorded listing expense and related transaction costs of approximately HK$294.4 million and HK$66.2 million respectively for the six months ended 30 September 2016, and no such expenses were recognized for the six months ended 30 September 2017, primarily due to no further recognition of such fees as a result of the completion of the Reverse Takeover Transaction in FY2016.

The listing expense is a notional expense without any impact on the Group's net assets and cash flow.

Net finance income/(costs)

The Group recorded net finance costs of approximately HK$6.6 million for the six months ended 30 September 2016 and net finance income of approximately HK$3.3 million for the six months ended 30 September 2017, which was primarily due to the financial income of approximately HK$15.2 million recorded in the six months ended 30 September 2017 which mainly included the fair value gain on the financial assets recognized in the first half of FY2017, the change in fair value on the derivative component of the Convertible Note, the exchange gain and interest income recorded, netting off by finance costs of approximately HK$11.9 million which mainly included interest expenses on the convertible bond of the Company (the "Convertible Bond") and the Convertible Note and interest on bank and other borrowings.

Loss before taxation

The Group's loss before taxation significantly decreased by approximately HK$375.5 million from approximately HK$394.8 million for the six months ended 30 September 2016 to approximately HK$19.3 million for the six months ended 30 September 2017, which was primarily due to the cumulative effects of factors given above.

Income tax

The Group's income tax changed from a deferred tax expense of approximately HK$4.6 million for the six months ended 30 September 2016 to a deferred tax expense of approximately HK$5.4 million for the six months ended 30 September 2017. The change was mainly in relation to the movements of the deferred tax assets and liabilities arising from the temporary differences of the provision for 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 decreased by approximately HK$374.8 million from approximately HK$399.4 million for the six months ended 30 September 2016 to approximately HK$24.6 million for the six months ended 30 September 2017, which was primarily due to the cumulative effects of factors given above.

EBITDA and adjusted EBITDA

The management of the Company prepared a reconciliation of EBITDA (earnings before interest expenses, income tax, depreciation and amortisation) and adjusted EBITDA to loss before taxation, our most directly comparable financial performance calculated and presented in accordance with HKFRS.

The management of the Company believes that EBITDA and adjusted EBITDA are financial measures commonly used in the oil and gas industry as supplemental financial measures by the management 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 measures of performance or as an indicator of the Group's operating performance or profitability. EBITDA and adjusted EBITDA fail to account for income tax, interest expenses, depreciation and amortisation.

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

	Six months ended 30 September	
	2017	2016
	HK$'000	*HK$'000*
	(Unaudited)	(Unaudited)
Loss before taxation	**(19,281)**	(394,825)
Add: Interest expenses	**10,804**	5,494
Add: Depreciation and amortisation	**27,866**	21,044
EBITDA	**19,389**	(368,287)
Add: Listing expense and related transaction costs	**–**	360,620
Add: Cost related to the investment regarding the Target Assets	**13,000**	–
Adjusted EBITDA	**32,389**	(7,667)

The Group's EBITDA changed from a loss of approximately HK$368.3 million for the six months ended 30 September 2016 to a profit of approximately HK$19.4 million for the six months ended 30 September 2017. The increase was primarily attributable to (i) no further recognition of significant listing expense and related transaction costs as a result of the completion of the Reverse Takeover Transaction; and (ii) the increase in crude oil prices and net sales volume.

The Group's adjusted EBITDA changed from a loss of approximately HK$7.7 million for the six months ended 30 September 2016 to a profit of approximately HK$32.4 million for the six months ended 30 September 2017, which was primarily attributable to the increase 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 US$, HK$ and RMB. As at 30 September 2017, the Group had unpledged cash and bank deposits of approximately HK$524.6 million (31 March 2017: HK$1,134.5 million).

As at 30 September 2017, the Group had no outstanding entrusted loans (31 March 2017: Third party unsecured entrusted loans of approximately HK$101.4 million).

As at 30 September 2017, the Group had a Convertible Note with carrying amount of approximately HK$226.6 million (31 March 2017: HK$222.6 million). The principal amount of the Convertible Note is HK$250 million (the "CN Principal Amount") pursuant to the convertible note subscription agreement and that no interest shall be payable on the entire CN Principal Amount.

As at 30 September 2017, the Group had Convertible Bond with carrying amount of approximately HK$64.2 million (31 March 2017: HK$116.5 million). The aggregate principal amount of the Convertible Bond is HK$96.8 million, with the maturity date of 30 April 2022 and payable at an interest rate of 1% per annum. The Convertible Bond with the principal amount of approximately HK$23.2 million held by Tanisca Investments Limited ("Tanisca") was fully converted into 344,754,077 ordinary shares of the Company during the first half of FY2017.

Save as the information disclosed above or otherwise in this unaudited interim results announcement, the Group had no outstanding mortgage, pledge, debentures or other loan capital issued or agreed to be issued, bank overdrafts, borrowings, liabilities under acceptance or other similar liabilities, hire purchase and finance lease commitments, or any guarantees or other material contingent liabilities as at 30 September 2017.

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

As at 30 September 2017, the Group's gearing ratio (ratio of the sum of total bank and other borrowings, the Convertible Bond and the Convertible Note to the total assets) was approximately 10.8% (31 March 2017: 15.5%).

CHARGES ON GROUP ASSETS

As at 30 September 2017, the Group did not have any charges on its assets (31 March 2017: Nil).

FUTURE PLANS FOR MATERIAL INVESTMENTS OR CAPITAL ASSETS

The Group has been actively exploring opportunities for investments in natural gas industry in North America.

Save as disclosed above, the Group did not have any concrete future plans for material investments or capital assets as at 30 September 2017. However, the Group always seeks for new investment opportunities in its operations to broaden the revenue and profit potential of the Group and enhance shareholders' value in the long term.

ACQUISITIONS AND DISPOSALS (INCLUDING ANY SIGNIFICANT INVESTMENTS)

Please refer to the section headed "Investment regarding oil and gas assets in the US" above for the Company's investment regarding certain oil and gas assets in the US and the section headed "Investment regarding natural gas business along the industry chain" for the Company's investment regarding certain natural gas business in China.

Save as disclosed above, the Group did not hold any significant investments during the six months ended 30 September 2017.

CONTINGENT LIABILITIES

Hongbo Mining has been involved in a legal dispute with 北京炅湘鈺技術開發有限公司 (Beijing Jiongxiangyu Technology Development Co. Ltd.*) (the "Claimant"), the details of which can be found in the section headed "History and Business of the PRC Target — Litigation" and note 31 of Section B to "Appendix III — Accountants' Report of the PRC Target" in the RTO Circular. The Supreme People's Court of the PRC ("PRC Supreme Court") issued a judgment on 19 June 2017 in the re-trial initiated by the Claimant (the "Judgment"). Pursuant to the Judgment, the PRC Supreme Court dismissed the Claimant's case against Hongbo Mining on the ground that the latter was not a contracting party to the agreement which was the subject matter of the dispute. The PRC Supreme Court also stated that the Judgment was a final judgment.

Save as disclosed above, so far as known to the Directors, as at 30 September 2017, 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.

COMMITMENTS

Capital commitments

As at 30 September 2017, the Group had capital commitments of approximately HK$38.3 million (31 March 2017: HK$28.6 million) contracted but not provided for the acquisition of property, plant and equipment, and the provision of future funding under the Credit Agreement.

Operating lease commitments

As at 30 September 2017, the Group had operating lease commitments as lessee of approximately HK$1.3 million (31 March 2017: HK$2.2 million).

INTERIM DIVIDEND

The Directors do not recommend the payment of an interim dividend for the six months ended 30 September 2017 (31 March 2017: Nil).

EMPLOYEES

As at 30 September 2017, the Group had 102 (31 March 2017: 97) employees in Hong Kong and the PRC. For the six months ended 30 September 2017, the total staff costs (including the Directors' emoluments) amounted to approximately HK$12.9 million (Six months ended 30 September 2016: HK$7.1 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 adopted the terms of reference which are in line with the Corporate Governance Code as set out in Appendix 14 to the Listing Rules (the "CG Code"). The Group's unaudited interim results for the six months ended 30 September 2017 have been reviewed by the Audit Committee.

CHANGES IN INFORMATION OF DIRECTORS

The changes in certain information of Directors subsequent to the date of the 2017 annual report of the Company are set out below pursuant to Rule 13.51B(1) of the Listing Rules:

Mr. Wang Jingbo, an executive director of the Company, has been appointed as a director of Fang Holdings Limited, a company listed on the New York Stock Exchange (the "NYSE") (NYSE: SFUN), with effect from 20 June 2017.

Mr. Shong Hugo, a non-executive director of the Company, has been appointed as a non-executive director of iOne Holdings Limited (stock code: 982), a company listed on the Main Board of the Stock Exchange, with effect from 15 September 2017.

Mr. Lin Dongliang, a non-executive director of the Company, is also a director of 朗新科技股份有限公司(LongShine Technology Co., Ltd.*) (stock code: 300682), which was listed on the Shenzhen Stock Exchange in August 2017.

Save as disclosed above, there is no other change in information of the Directors required to be disclosed pursuant to Rule 13.51B(1) of the Listing Rules.

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 2017.

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 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 2017.

Compliance with Corporate Governance Code

In the opinion of the Board, the Company had complied with the applicable CG Code during the six months ended 30 September 2017, except that:

> 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. At present, 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.

NON-COMPETITION DEED

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

The Company has received confirmations from each of the Covenantors on full compliance with the Non-Competition Deed for the six months ended 30 September 2017.

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 2017.

PUBLICATION OF RESULTS ANNOUNCEMENT

The results announcement is published on the website of the Stock Exchange at http://www.hkex.com.hk and the Company's website at http://www.irasia.com/listco/hk/idgenergy/index.htm. The interim report of the Group will be despatched to the shareholders of the Company and will be published on the above websites in due course.

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

Hong Kong, 24 November 2017

As at the date hereof, the Board comprises seven Directors, of whom two are executive Directors, namely Mr. Wang Jingbo (Chairman and Chief Executive Officer), and Mr. Lee Khay Kok; two are non-executive Directors, namely Mr. Lin Dongliang and Mr. Shong Hugo; and three are independent non-executive Directors, namely Prof. Chen Zhiwu, Mr. Shi Cen, and Mr. Chau Shing Yim David.