中油港燃能源集團控股有限公司

**CHINA OIL GANGRAN ENERGY GROUP HOLDINGS LIMITED**

*(Incorporated in the Cayman Islands with limited liability)*

**Stock Code: 8132**

# FIRST QUARTERLY RESULTS ANNOUNCEMENT FOR THE THREE MONTHS ENDED 30 JUNE 2016

## CHARACTERISTICS OF THE GROWTH ENTERPRISE MARKET ("GEM") OF THE STOCK EXCHANGE OF HONG KONG LIMITED (THE "STOCK EXCHANGE")

**GEM has been positioned as a market designed to accommodate companies to which a higher investment risk may be attached than other companies listed on the Stock Exchange. Prospective investors should be aware of the potential risks of investing in such companies and should make the decision to invest only after due and careful consideration. The greater risk profile and other characteristics of GEM mean that it is a market more suited to professional and other sophisticated investors.**

**Given the emerging nature of companies listed on GEM, there is a risk that securities traded on GEM may be more susceptible to high market volatility than securities traded on the Main Board of the Stock Exchange and no assurance is given that there will be a liquid market in the securities traded on GEM.**

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# MANAGEMENT DISCUSSION AND ANALYSIS

## Financial Review

The revenue of the Company and its subsidiaries (collectively the "Group") for the three months ended 30 June 2016 (the "Financial Period") was approximately HK$116 million, an increase of approximately 4.47 times from HK$21.2 million in the corresponding period last year. Such an increase was attributable to a rise in revenues from the sales of refined oil and the trading of Methyl tert-butyl ether, a chemical used as a component in fuel for gasoline engines of automobiles. Loss attributable to owners of the Company was approximately HK$13.7 million, a decrease of 36% from approximately HK$21.4 million accrued last year. The decrease in loss was primarily due to (i) the significant increase in the Group's revenue from retail of refined oil and Methyl tert-butyl ether of approximately HK$93.3 million for the Financial Period and (ii) the decrease in administrative expenses by approximately HK$5.7 million from HK$28 million of the last year to approximately HK$22.3 million for the Financial Period.

The board of Directors (the "Board") does not recommend to pay dividends for the Financial Period.

## Business Review

During the Financial Period, the Group continued to operate a diverse portfolio comprising: (i) sales and manufacture of power cords and inlet sockets for household electric appliances and power and data cords for mobile handsets and medical control devices and raw cables; (ii) activities relating to the provision of programming services, web services, mobile marketing solutions and development of mobile phone games; (iii) development of liquefied natural gas, compressed natural gas and related clean energy business; and (iv) trading of Methyl tert-butyl ether.

### *Power Cords and Inlet Sockets for Household Electric Appliances*

Due to vigorous market competition, the Group's revenue from the sales of power cords and inlet sockets for household electric appliances in the Financial Period was approximately HK$2.1 million, compared to approximately HK$3.9 million in 2015, representing a year-on-year decrease of 46.2%.

Power cords and inlet sockets for household electric appliances are produced by the Group for the global markets, especially mainland China and Hong Kong and the United States, backed by safety approvals and certificates issued by various authorities from the countries in which they are sold.

Despite the short-term ups and downs of this business, the Group believes that the products concerned can satisfy mass consumer needs with their high manufacturing and safety standards, thereby providing it with steady returns in the long run. To improve its contributions in the years ahead, the Group will closely monitor the business segment and adjust its marketing strategies to tap increasing demand for these products.

***Power and Data Cords for Mobile Phones and Medical Control Devices***

With fierce competition in the sector during the Financial Period, the Group focused on those customer groups generating high profit margins and rigorously controlled its production costs, and the Group's revenue from power and data cords for mobile phones recorded and increase of approximately 27.8% to approximately HK$11.5 million (2015: approximately HK$9 million) for the Financial Period.

Catering to China's vast and diversified market for mobile phone accessories, the Group has been manufacturing power and data cords of different specifications, inclusive of high-speed connectors and data cord products, some of which are capable of supporting higher data transmission speed and sharper audiovisual output quality. All these devices produced by the Group are compliant to international and domestic regulatory standards and industry norms, such as those set by the USB Implementation Forum, Inc.

The Group's revenue from its power and data cords for medical control devices increase 66.7% to HK$9 million from HK$5.4 million of the previous Financial Period. These products are primarily exported to China and United States-based customers, which are then processed into final products including keyboards, pillow speakers, bed controls, bed cables and call cords targeting the medical and pharmaceutical market.

***Liquefied Natural Gas ("LNG") and Clean Energy Business***

Demand for LNG, a type of clean energy resource, decreased due to the volatile fluctuation of crude oil prices, which affected the Group's earnings from this business segment. Operating through its subsidiary, Jiangxi China Oil Gangran Energy Technology Company Limited (the "JV company"), the Group continued to develop the businesses of LNG, CNG and related clean energy. Through the patented technology it held, the JV company also helped the conversion of diesel-powered vessels to run on LNG, which is more environmental friendly and also prolonged the engine's lifespan. Jiangxi China Oil Gangran Energy Technology also embarked on joint research projects with some of China's top tertiary institutions and research units to uncover possibilities of conversion technology upgrades. Jilin China Oil Gangran Energy, another subsidiary of the Group, has been into negotiations with the Jilin Oilfield Management Bureau to jointly develop the related oilfields.

With the backup from China's positive policy and market developments for clean energy utilization, the Group remains confident this business segment will eventually drive its profitability and revenue growth going forward into the country's 13th Five-Year Plan period from 2016 to 2020.

***Development of Digital Applications***

During the Financial Period, the Group's digital applications business operating through its subsidiary 3 Dynamics (Asia) Limited ("3 Dynamics") is facing global competition, it remained in the stage of development and hence fell short of the revenue and revenue forecasts. Due to this, the Group sustained a loss of approximately HK$4.5 million for the 3 months ended 30 June 2016. New business strategies are being adopted and notwithstanding the short-term performance outcome, the Group is anticipated that the business will yield promising revenue contributions. 3 Dynamics' management will continue to closely monitor and steer the operations of 3 Dynamics towards profitability.

Pursuant to the Sale and Purchase Agreement ("SPA") for the acquisition of 3 Dynamics, Mr. Chung Wai Sum (the "Mr. Chung") irrevocably and unconditionally guarantees to Dynamic Miracle Limited, a directly wholly-owned subsidiary of the Company (the "Purchaser") that the audited net profits after tax of 3 Dynamics as shown in its audited financial statement for the 12 months from the date of the completion of acquisition, spanning the period from 11 December 2013 to 10 December 2014 ("Relevant Period"), shall not be less than HK$42 million ("Profit Guarantee"). The Profit Guarantee is backed by 280,000,000 consideration shares ("Escrow Shares") of the Company issued to Mr. Chung. As certified by the auditors of 3 Dynamics, the said company has recorded a net loss after tax in its audited financial statement for the Relevant Period and therefore the actual profit for the Relevant Period shall be deemed as inadequate, pursuant to the terms of the SPA. Hence, the Purchaser has instructed a licensed securities dealer to dispose of (the "Sale") such number of Escrow Shares appropriately sufficient to pay the Profit Guarantee at the then best price it reasonably obtained and thereafter, pay the net proceeds of the Sale to the Purchaser and release the share certificates of the remaining Escrow (if any) to Mr. Chung. Under the terms and conditions as stipulated in the SPA, the consideration shares would be sold in order to pay the proceeds under the Profit Guarantee. During last financial year, the Group received HK$20,000,000 from Mr. Chung to partially honour its Profit Guarantee obligations. As at the date of this announcement, HK$22,000,000 is still outstanding from Mr. Chung and he is still holding 147,740,000 Shares. The Company has been reviewing with Mr. Chung on a timely basis to recover the outstanding amount.

### *Refined Oil Retail Business*

Building on the strong foundation of its energy business, the Group has diversified its operations for a broader revenue base by engaging in the refined oil retail business since June 2015. Jiangxi China Gangran Energy Technology Company Limited, a subsidiary of the Group, has signed an agreement with Jiangxi Jiujiang Sales Branch Company of PetroChina Company Limited to lease six bunker barges, each with a loading capacity of 1,800 tonnes and a total loading capacity of 10,800 tonnes. Operating the leased vessels in the Yangtze River, Gan River and Poyang Lake basins, the Group has been taking initial but substantive measures to develop its refined oil business in the PRC.

Furthermore, the Group has been granted a Refined Oil Retail License from the Business Bureau of Jiangxi Province of the PRC that officially authorizes its engagement in the refined oil retail business. The Board takes the stance that the development of the refined oil business can help to strengthen its competitive position in China's energy sector and consolidate its future earnings. Such a move is in the interests of the Company and its shareholders.

Having executed the necessary due diligence, the Directors are satisfied, to the best of their knowledge, information and beliefs, that Jiangxi Jijiang Sales Branch Company of PetroChina Company Limited along with its ultimate beneficial owners are third parties independent and not connected with the Company and connected persons (as defined in the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited).

During the Financial Period, the sales of refined oil contributed approximately HK$65.5 million revenue to the Group, augmenting its total revenues. Considering the enormous market potential and demand for refined oil in the PRC, the Group believes that its future earnings from this business segment will continue to expand from strength to strength.

### *Trading of Methyl tert-butyl ether 甲基叔丁基醚*

During the Financial Period, the Group continued its trading of Methyl tert-butyl ether, a gasoline additive and used almost exclusively as a component in fuel for gasoline engines. Besides increasing the octane number, Methyl tert-butyl ether also reduces the fuel vapour pressure (Reid vapour pressure), so that the vapour emissions during automobile fuelling and operation are reduced. Addition of Methyl tert-butyl ether reduces exhaust emissions, particularly carbon monoxide, unburnt hydrocarbons, polycyclic aromatics and particulate carbon. In the PRC, where the oxygenate content and environmental concerns are paramount, it is used in significant quantities.

The Group takes the view that its engagement in the trading of such a chemical will bring in considerable revenues, immediately and over the long term. During the Financial Period, the trading of Methyl tert-butyl ether generated a revenue of approximately HK$27.8 million to the Group, contributing to an increase of its total revenues.

### *Geographical Information*

Regarding the Group's operational structure, Hong Kong and mainland China remained to be the major markets for its business, with the aggregate revenue from these two regions accounting for approximately 91.2% (2015: approximately 59%) of the Group's total revenue. The revenue from other overseas markets, including the United States, accounted for approximately 8.8% (2015: approximately 41%) of the total revenue.

### *Change of Directors*

With effect from 29 July 2016:

Mr. Ng Ka Chung ("Mr. Ng") has retired by rotation as an Independent Non-Executive Director of the Company at annual general meeting held on 29 July 2016. Mr. Ng has confirmed that he has no disagreement with the Board and there is no other matter that needs to be brought to the attention of the shareholders of the Company or The Stock Exchange of Hong Kong Limited in relation to his resignation.

Mr. Chan Ying Kay ("Mr. Chan") has been appointed as independent non-executive director of the Company.

Mr. Chan, aged 52, is an independent non-executive director of Doyen International Holdings Limited (formerly known as Dowell Property Holdings Limited), a company listed on the main board of Stock Exchange (stock code: 668) since October 2009. He was the company secretary and the chief financial officer of Beautiful China Holdings Company Limited, a company listed on the main board of the Stock Exchange (stock code: 706) from April 2003 to 23 June 2016, of which, he was responsible for the financial management, corporate finance and company secretarial matters. From May 1995 to March 2003, Mr. Chan was an executive director and the company secretary of Bestway International Holdings Limited, a company listed on the Main Board of the Stock Exchange (stock code: 718). From June 2011 to March 2013, Mr. Chan was an independent non-executive director of China Environmental Energy Investment Limited, a company listed on the main board of the Stock Exchange (stock code: 986). From 11 July 2016, Mr. Chan is the chief financial officer and company secretary of Realord Group Holdings Limited, a company listed on the main board of Stock Exchange (stock code: 1196). Mr. Chan graduated from the University of Sheffield with a Master of Business Administration degree, and is currently a fellow member of the Hong Kong Institute of Certified Public Accountants and the Association of Chartered Certified Accountant. Mr. Chan has over 20 years of experience in accounting and finance.

**Outlook**

During the period under review, the business sectors in which the Group operated saw their growths hampered by international financial volatility and a slowdown in the emerging markets, including China. Falling commodity prices, the declining global industrial output and depressed trading added to the uncertainties. Despite the challenging macro-economic conditions, the Group achieved a steady growth across its traditional and new business segments generally. Correspondingly, it recorded a 4.47 times increase in overall revenue, due to revenue growth from the sales of refined oil and chemicals trading.

While this low-growth environment appears likely to persist in 2016 and beyond, the Group is steadfastly committed to expanding its market presence and profitability, through operational strategies calculated to broaden its revenue bases and capture new business opportunities presented by the market developments and in alignment with China's latest policies.

The Group remains optimistic of its consumer products business. Its medical control devices business recorded a healthy growth. Such endeavors are attuned to the official emphasis on nurturing local consumption and call to support healthy ageing. Moreover, under the 13th five-year plan, the Chinese government will act to shift the economy from a focus on exports and investment toward services and consumer spending.

The Group has high expectation in the mobile apps business. With over a quarter of the Chinese population owning mobile phones with ready access to the Internet, the demand for mobile apps, especially gaming apps, is massive. According to a white paper by the Global Mobile Game Confederation, China will become the top global market for online games by 2016, yielding US$7.7 billion in revenues. As a business diversification move, the Group has acquired 3 Dynamics, a company experienced in developing mobile games and popular cartoon characters. Though still at a nascent stage, 3 Dynamics is anticipated to contribute to the Group's profitability as its business matures.

Apart from its mobile apps development business, the Group also has acquisition plans targeting Sino Grandway Investments, a glass products manufacturing company. The rationale is to facilitate the Group's entry into other high-growth sectors of the PRC, to further diversify its investments, broaden its revenue base and increase the returns for its shareholders.

In line with China's 13th five-year plan, which continues to encourage Liquefied Natural Gas (LNG) utilization within the waterborne transportation industry, the Group will continue to leverage on the patent technology held by its JV company Jiangxi China Oil Gangran Energy Technology Company Limited for the conversion of vessels to LNG bunkers and develop this business segment further. Presently, such conversion can result in a savings of 15 percent of fuel cost, a 70 percent reduction in emissions of nitrogen oxides (NOx) and longer engine life. However, the continuously low prices of crude oil deterred vessel operators from utilizing natural gas, which was costlier, hence slowing the demand for such clean energy. Over the longer haul, the Group believes that the demand for LNG will continue to expand due to state policies mandating environmental protection.

Through its branch company in Jiangxi, the Group has also embarked on R&D projects jointly with the country's key tertiary institutions and research organizations, such as Harbin Industrial University, with a view of optimizing and upgrading its technology for LNG vessels conversion.

Recent years have seen China pursuing a clean energy policy, including one for the waterborne transportation sector, as evident in a plan by the Ministry of Transport to cut polluting emissions from vessels in the Pearl River Delta, Yangtze River Delta and Bohai Sea by 65% by 2020. The country also plans to boost its regulations preventing ship and port pollution, reducing emissions and promoting the use of clean energy. Nationwide guidelines and measures promulgated by the state to promote natural gas consumption across all transportation sectors included Guiding Opinions on Accelerating the LNG Utilization in the Waterborne Industry; Administrative Measures of Standardized Subsidy on Inland Canal Vessel and Plan to Cope with Climate Changes (2014-2020).

Given these definitive policy and industry trends, the Group has tasked its Jiangxi joint venture to set up oil and natural gas refilling stations, as part of an initiative to refine its product sales model. Alongside PetroChina Company, Sinopec, and CNOOC, the JV subsidiary holds the franchise to operate six refueling vessels, each weighing 1,800 tonnes, in Yangtze River, Gan River and Poyang Lake. Discussions are also underway between Jilin China Oil Gangran Energy, another subsidiary of the Group, and the Jilin Oilfield Management Bureau on possible collaboration projects, such as electrical energy upgrades and joint exploration of local oilfields. All these potential projects are moving forward to the technical and feasibility analysis stage. Successful execution of the above initiatives will position the Group as a credible clean energy provider in China's waterborne transportation sector.

Chinese President Xi Jinping outlined the nation's "One Belt, One Road" plan – a developmental initiative designed to link China's Southern and Eastern commercial hubs with Europe and Africa. This strategic initiative to create a modern trade route through infrastructure investments is expected to bring an array of possibilities. Responding positively to the vision, the Group is confident that "One Belt, One Road" will open new markets for its entry and expansion. Building on its robust business foundation in clean energy, the Group sees itself being offered the opportunities to branch into newer product categories, including solar power, solar thermal energy, new energy automobiles, day-to-day clean energy applications, cultural tourism and big-data network solutions.

While the growth opportunities are wide ranging, the challenge for the Group is to assess, identify and take advantage of those definitive policies and industry trends that can ensure the attractiveness of its corporate brand is maintained and that high quality execution is sustained. To accomplish this, considerable risk management and control are called for, with a degree of prudence to be exercised on every major business decision made.

Over the years ahead, the clean energy business will remain as the Group's principal revenue driver, owing to its promising outlook combined with the positive policy milieu and market from China. Complementing it are other business segments, such as mobile apps development and consumer electronics products, which are likely to turn profitable as the country's consumer market further develops. Still, continual improvement and innovation in product portfolio is critical in securing optimal returns and value for the company's shareholders and its other stakeholders.

***Potential Acquisitions Activities***

The Group continued to seek for investment opportunities so as to achieve the aims of business diversification, to expand the source of income and optimize the returns to its shareholders.

The Group entered into a memorandum of understanding ("MOU") on 10 January 2014 (as supplemented by four supplemental memorandum of understanding dated 9 October 2014, 20 January 2015, 9 April 2015 and 31 July 2015 respectively (collectively, the "Supplemental MOUs") with an independent third party, Mr. Wu Zhi Qiang (the "Seller") in relation to a potential acquisition of Jian Long Da Holdings Limited (the "Jian Long Da") to engage in the construction and operation of centralized heating facilities in Wangdu county of Hebei Province. Pursuant to the MOU, the Seller shall not (and shall procure his agents and adviser not to) during the period of 9 months (the "Exclusivity Period") from the date of the MOU directly or indirectly negotiate with any third party on any sale or transfer of any shares or material assets of Jian Long Da. The Exclusivity Period was extended for a further 12 months by the Supplemental MOUs.

Details of the MOU and the Supplemental MOUs are set out in the Company's announcements dated 10 January 2014, 9 October 2014, 20 January 2015, 9 April 2015 and 31 July 2015 respectively. The Group and the Seller has reached a preliminary understanding to refund the full deposit of HK$15,000,000 and to enter into a termination agreement to terminate the MOU and the Supplemental MOUs. Upon the termination of the MOU and the Supplemental MOUs, the parties will have no further obligations to proceed with the proposed acquisition. Up to the date of the announcement, the deposit remain outstanding and the managements are negotiating possible ways to retrieve the deposit.

Further, with reference made to announcements of the Group dated 7 August 2014, 20 October 2014, 12 February 2015 and 16 October 2015 in relation to the MOU, Supplemental MOU and the Second Supplemental MOU signed by the Group and Sino Grandway International Investment Limited (the "Second Target Company") in relation to the Company's proposed investment in the Second Target Company.

On 5 February 2016, the Group entered Into the Acquisition Agreement ("Acquisition Agreement") with the Zhang Weihua ("Vendor A") and Wei Yingming ("Vendor B"), pursuant to which the Company has conditionally agreed to acquire and Vendor A and Vendor B have conditionally agreed to sell the Sale Shares, representing the entire issued share capital of the Second Target Company, at an aggregate Consideration of RMB100,000,000 which shall be satisfied by cash.

Subsequently, on 4 May 2016, the Company entered into a second supplemental agreement ("second supplemental agreement") with Vendor A and Vendor B that as additional time is required to complete the due diligence exercise, the long stop date is to extend from 5 April 2016 to 30 June 2016.

The Company has completed its due diligence in relation to the proposed investment and is in negotiation on the commercial terms with the Second Target Company. No binding agreements has been signed by the parties as at the date of this announcement and HK$32 million deposit has been paid as earnest money. The Group did not receive any interest income from the deposit. A Deed of Charge was signed by the Second Target Company Shareholders as collateral to the Deposit.

The Board is of the view that the above potential acquisition represent for the Group an opportunity to participate in China's glass products distribution, and are expected to enhance the Group's investment portfolio and future earnings.

***Disclosable Transaction***

On 23 November 2015 (after trading hours), Mr. Wong Sze Chung Armstrong ("Mr. Wong") and New Skyline Group Limited, a wholly-owned subsidiary of the Company ("New Skyline Group Limited") entered into the acquisition agreement ("Acquisition Agreement") pursuant to which Mr. Wong agreed to sell New Skyline Group Limited and New Skyline Group Limited agreed to purchase from Mr. Wong the entire issued share capital of the Instant Strong Group Limited, at an aggregate consideration of HK$200,000,000.

The consideration shall be satisfied as to partly by cash and partly by the consideration shares, which shall be issued under the general mandate, granted to the Directors at the annual general meeting held on 20 July 2015. For details, please refer to the announcement dated 23 November 2015.

On 28 January 2016, Mr. Wong and New Skyline Group Limited entered into the supplemental agreement in relation to the Acquisition Agreement ("Supplemental Agreement") to extend the long stop date and the time for New Skyline Group Limited to advance HK$5,000,000, being the first part of the Shareholder's Loan, to Wide Code New Materials in the name of the Mr. Wong. For details, please refer to the announcement dated 28 January 2016.

Subsequently, on 4 May 2016, a supplemental agreement ("Supplemental Agreement A") was entered between the Company and Mr. Wong that as additional time is required to complete the due diligence exercise, the long stop date is to be extended from 5 April 2016 to 30 June 2016.

The sole asset of Instant Strong Group Limited is the 15% legal and beneficial interest in Wide Code New Materials Development Company Limited ("Wide Code New Materials"). Upon the completion of the said acquisition, Wide Code New Materials will hold the entire equity interest of Wuhu Weixiang which is a company established in PRC and is principally engaged in the production, sale and research and development of neo-material in the PRC. Wuhu Weixiang produces ultra-fine composite active ground calcium carbonate powder and functional composite master batch, which are broadly applied in plastic, paint, paper and rubber products manufacturing industries. Wuhu Weixiang is planning to engage in the calcite ore trading business in the future.

The conditions precedent to the Acquisition Agreement could not be satisfied by 30 June 2016, the parties entered into termination agreement on 15 July 2016 to confirm the termination of the Acquisition Agreement and the Supplemental Agreements with retrospective effect from 30 June 2016 and the Vendor has refunded the deposit of HK$500,000 to the purchaser as at the date of this announcement. Details of the termination of acquisition are set out in the Company's announcement dated 15 July 2016.

***Potential Investment***

The Company has entered into a memorandum of understanding on 11 January 2016 with an independent third party, China Oil Energy Group Holdings Limited (the "Third Target Company") in relation to the potential investment in engage in the petrol gas station business in Guangdong Province in the PRC and the Group may leverage on the Third Target Company's petrol gas stations network to supply natural gas. The Company considers that the proposed acquisition will further enhance the investment portfolio and future earnings of the Group. For details, please refer to the announcement dated 11 January 2016. The Company continues follow-up with the Third Target Company.

## FIRST QUARTERLY UNAUDITED RESULTS

The Board is pleased to announce the unaudited consolidated results of the Group for the Financial Period together with the comparative unaudited figures for the Previous Corresponding Period as follows:

## UNAUDITED CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

*For the three months ended 30 June 2016*

| | | For the three months ended 30 June | |
|---|---|---|---|
| | | **2016** | 2015 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| **Revenue** | *3* | **115,953** | 21,196 |
| Cost of sales | | **(104,859)** | (17,085) |
| **Gross profit** | | **11,094** | 4,111 |
| Other income | *4* | **2,898** | 5,130 |
| Selling expenses | | **(4,616)** | (1,226) |
| Administrative expenses | | **(22,295)** | (27,975) |
| **Loss from operations** | | **(12,919)** | (19,960) |
| Finance costs | *5* | **(2,612)** | (3,562) |
| **Loss before tax** | | **(15,531)** | (23,522) |
| Income tax credit | *6* | **811** | 1,400 |
| **Loss for the period** | | **(14,720)** | (22,122) |
| **Other comprehensive loss, net of tax:** | | | |
| *Items that may be reclassified to profit or loss:* | | | |
| Exchange differences on translating foreign operations | | **(691)** | (652) |
| Fair value change of available-for-sale investments | | **50** | – |
| **Total comprehensive loss for the period** | | **(15,361)** | (22,774) |

| | Note | For the three months ended 30 June | |
|---|---|---|---|
| | | **2016** | 2015 |
| | *Note* | ***HK$'000*** | *HK$'000* |
| **Loss for the period attributable to:** | | | |
| Owners of the Company | | **(13,705)** | (21,376) |
| Non-controlling interests | | **(1,015)** | (746) |
| | | **(14,720)** | (22,122) |
| **Total comprehensive loss for the period attributable to:** | | | |
| Owners of the Company | | **(13,655)** | (21,640) |
| Non-controlling interests | | **(1,706)** | (1,134) |
| | | **(15,361)** | (22,774) |
| | | ***HK$ cents*** | *HK$ cents* |
| Loss per share | *7* | | |
| Basic | | **(0.14)** | (0.24) |
| Diluted | | **N/A** | N/A |

# NOTES TO THE FIRST QUARTERLY UNAUDITED RESULTS

## 1. GENERAL INFORMATION

The Company was incorporated in the Cayman Islands as an exempted company with limited liability under the Companies Law of the Cayman Islands. The address of its registered office is Cricket Square, Hutchins Drive, P.O. Box 2681, Grand Cayman KY1-1111, Cayman Islands. The address of its principal place of business is Suites 707-9, 7th Floor, Prudential Tower, The Gateway, Tsim Sha Tsui, Kowloon, Hong Kong. The Company's shares are listed on the Growth Enterprise Market (the "GEM") of The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

The Company is an investment holding company. The principal activities of its subsidiaries (together with the Company referred to as the "Group") is the development of digital applications, including but not limited to handheld electronic game consoles, mobile game applications, digital marketing solutions, development of liquefied natural gas, compressed natural gas and related clean energy business, engaging in the retail business of refined oil, and the manufacturing and trading of power and data cords for household electronic appliances, mobile phones and medical control devices.

## 2. BASIS OF PREPARATION

The first quarterly unaudited condensed consolidated financial statements have been prepared in accordance with accounting principles generally accepted in Hong Kong which include Hong Kong Financial Reporting Standards, Hong Kong Accounting Standards and Interpretations (collectively, "HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") and the applicable disclosures required by the GEM Listing Rules. The principal accounting policies used in the first quarterly unaudited condensed consolidated financial statements are consistent with those adopted in the preparation of the Group's consolidated financial statements for the year ended 31 March 2016.

The HKICPA has issued a number of new and revised HKFRSs. For those which are relevant to the Group's operations and effective for its accounting period beginning on 1 April 2016, the adoption has no significant changes on the Group's accounting policies, the presentation, the reported results and the financial position of the Group for the current or prior accounting periods.

The Group has not applied the new and revised HKFRSs which have been issued but are not yet effective. The Group is currently in the process of making an assessment of the impact of these new and revised HKFRSs but is not yet in a position to state whether they would have a material impact on the Group's results and financial position.

## 3. REVENUE

| | **For the three months ended 30 June** | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| Sales of power and data cords and inlet sockets | **22,673** | 18,371 |
| Sales of refined oil and chemicals | **93,280** | 2,825 |
| | **115,953** | 21,196 |

## 4. OTHER INCOME

| | For the three months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| Interest income | **2** | 141 |
| Net foreign exchange gain | **157** | – |
| Sundry income | **–** | 196 |
| Reversal of impairment of trade receivables | **2,739** | 4,158 |
| Gain on initial recognition of promissory notes | **–** | 339 |
| Gain on early redemption of promissory notes | **–** | 296 |
| | **2,898** | 5,130 |

## 5. FINANCE COSTS

| | For the three months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| Interest on bank borrowings | **163** | 2 |
| Interest on trust receipt loans | **44** | 28 |
| Effective interest expenses on convertible bonds wholly repayable within five years | **–** | 385 |
| Effective interest expenses on promissory notes | | |
| – Wholly repayable within five years | **1,291** | 1,038 |
| – Not wholly repayable within five years | **1,077** | 2,060 |
| Interest on obligation under finance leases | **37** | 49 |
| | **2,612** | 3,562 |

## 6. INCOME TAX CREDIT

| | For the three months ended 30 June | |
|---|---|---|
| | **2016** | 2015 |
| | ***HK$'000*** | *HK$'000* |
| Current tax – Hong Kong Profits Tax | | |
| Provision for the period | **–** | 4 |
| Current tax – PRC Enterprise Income Tax | | |
| Provision for the period | **660** | 67 |
| | **660** | 71 |
| Deferred tax | **(1,471)** | (1,471) |
| | **(811)** | (1,400) |

Hong Kong profits tax has been provided at the rate of 16.5% on the estimated assessable profits for the period.

Tax charge on profits assessable elsewhere have been calculated at the rates of tax prevailing in the countries in which the Group operates, based on existing legislation, interpretation and practices in respect thereof.

Pursuant to the Enterprise Income Tax rules and regulations of the PRC, the PRC subsidiaries of the Group are subject to Enterprise Income Tax at a rate of 25%, except for Sun Fair Electric Wire & Cable (Shenzhen) Company Limited is entitled to a preferential tax rate of 15% for the three years since 2012 for being a high technology enterprise.

## 7. LOSS PER SHARE

**Basic loss per share**

Basic loss per share is calculated by dividing the loss attributable to owners of the Company of HK$13,705,139 (2015: HK$21,375,963) by the weighted average number of ordinary shares of 10,073,108,656 (2015: 9,045,829,383) in issue for the Financial Period.

**Diluted loss per share**

No diluted loss per share is presented as the share options and convertible bonds have anti-dilutive effects on basic loss per share for the Financial Period (2015: Nil).

## 8. DIVIDEND

No dividend had been paid or declared by the Company for the Financial Period (2015: Nil).

## 9. RESERVES

| | (Unaudited) | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| | Attributable to owners of the Company | | | | | | | | | | | |
| | Share capital | Share premium | Statutory reserve | Available-for-sale investment revaluation reserve | Capital reserve | Foreign currency translation reserve | Share-based capital reserve | Convertible bonds equity reserve | Accumulated losses | Total | Non-controlling interests | Total equity |
| | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* | *HK$'000* |
| At 1 April 2015 | 877 | 295,300 | 3,382 | – | – | 284 | 82,157 | 126,621 | (243,165) | 265,456 | (3,013) | 262,443 |
| Total comprehensive loss for the period | – | – | – | – | – | (264) | – | – | (21,376) | (21,640) | (1,134) | (22,774) |
| Issues of new shares upon conversion of convertible bonds | 37 | 97,263 | – | – | – | – | – | (100,843) | – | (3,543) | – | (3,543) |
| Exercise of share option | 32 | 66,340 | – | – | – | – | (36,855) | – | – | 29,517 | – | 29,517 |
| Changes in equity for the period | 69 | 163,603 | – | – | – | (264) | (36,855) | (100,843) | (21,376) | 4,334 | (1,134) | 3,200 |
| At 30 June 2015 | 946 | 458,903 | 3,382 | – | – | 20 | 45,302 | 25,778 | (264,541) | 269,790 | (4,147) | 265,643 |
| **At 1 April 2016** | **1,005** | **523,826** | **3,622** | **(1,457)** | **–** | **(4,459)** | **52,050** | **–** | **(352,957)** | **221,630** | **(5,632)** | **215,998** |
| Total comprehensive loss for the period | **–** | **–** | **–** | **50** | **–** | **(2,356)** | **–** | **–** | **(13,705)** | **(16,011)** | **(1,706)** | **(17,717)** |
| Exercise of share option | **4** | **6,436** | **–** | **–** | **2,622** | **–** | **(2,377)** | **–** | **–** | **6,685** | **–** | **6,685** |
| Changes in equity for the period | **4** | **6,436** | **–** | **50** | **2,622** | **(2,356)** | **(2,377)** | **–** | **(13,705)** | **(9,326)** | **(1,706)** | **(11,032)** |
| At 30 June 2016 | **1,009** | **530,262** | **3,622** | **(1,407)** | **2,622** | **(6,815)** | **49,673** | **–** | **(366,662)** | **212,304** | **(7,338)** | **204,966** |

## 10. CONTINGENT LIABILITIES

The Group had no significant contingent liabilities at 30 June 2016 and 31 March 2016.

## 11. EVENTS AFTER THE REPORTING DATE

On 15 July 2016, New Skyline Group Limited (the "Purchaser"), a wholly-owned subsidiary of the Group and Wong Sze Chung, Armstrong (the "Vendor"), have mutually agreed to terminate the Acquisition Agreement entered into between the Purchaser and the Vendor dated on 23 November 2015 (the "Acquisition Agreement"). The conditions precedent to the Acquisition Agreement could not be satisfied by 30 June 2016, being the Long Stop Date extended by the Supplemental Agreements (the "Supplemental Agreements"). The termination of the Acquisition Agreement and the Supplemental Agreements was retrospectively effective from 30 June 2016. On 15 July 2016, the Vendor has refunded the deposit of HK$500,000 to the Purchaser after the three month ended 30 June 2016.

## 12. COMPARATIVE AMOUNTS

Certain comparative amounts have been reclassified to conform to the current period's presentation.

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

As at 30 June 2016, the interest and short position of the Directors of the Company in the shares, underlying shares and debentures of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (Chapter 571) (the "SFO") as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the required standard of dealings by Directors of listed issuers as referred to in Rules 5.46 of the GEM Listing Rules were as follows:

### (I) Share options

The Company has a share option scheme (the "Scheme") which was adopted pursuant to a resolution of the sole shareholder passed on 27 April 2011. The purpose of the Scheme is to attract, retain and motivate talented participants to strive for future developments and expansion of the Group. The Scheme shall be an incentive to encourage the participants to perform their best in achieving the goals of the Group and allow the participants to enjoy the results of the Group attained through their efforts and contributions.

The Scheme became effective on 27 April 2011 and, unless otherwise cancelled or amended, will remain valid and effective for 10 years from the adoption of the Scheme. The terms of the Scheme are in compliance with the provisions of Chapter 23 of the GEM Listing Rules.

Particulars of the options to subscribe for shares granted to the Directors pursuant to the Scheme as at the beginning and the end of the Financial Period are set out below:

| Name of Directors | Capacity/ Nature of interest | Date of grant | Exercise price | Exercise period of share options | Maximum number of Shares subject to the outstanding options |
|---|---|---|---|---|---|
| Mr. Ho Chun Kit Gregory | Beneficial owner/personal | 17 March 2016 | HK$0.092 | 17 March 2016- 16 March 2025 (Both date inclusive) | 43,174,000 |

Save as disclosed above, as at 30 June 2016, none of the Directors of the Company had any interests or short positions in the shares, underlying shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) which were required to be notified to the Company and the Stock Exchange pursuant to Division 7 and 8 of Part XV of the SFO (including interests or short positions which they are taken or deemed to have under the provision of the SFO), or which were required to be entered in the register kept by the Company pursuant to section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to Rules 5.46 to 5.67 of the GEM Listing Rules relating to securities transactions by the Directors.

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

So far as the Directors are aware, as at 30 June 2016, no entities or persons (not being a Director or Chief Executive of the Company) had any interest and short position of 5% or more in the shares and underlying shares of the Company which would fall to be disclosed to the Company under the provision of Division 2 and 3 of Part XV of the SFO, or which are required to be disclosed pursuant to section 336 of the SFO.

## AUDIT COMMITTEE

The Company established an audit committee on 27 April 2011 with written terms of reference in compliance with rules 5.28 to 5.29 of the GEM Listing Rules. To comply with the amendment to the risk management and internal control section of the Corporate Governance Code and Corporate Governance Report of the GEM Board Listing Rules (Appendix 15) (the "Amended CG Code") of the Hong Kong Exchange, which comes into effect for the accounting periods beginning on or after 1 January 2016. The Terms of Audit Committee has been amended on 5 January 2016. Further details of the Terms of Reference of the Audit Committee are set out In the Company's announcement dated 5 January 2016.

The audit committee currently comprises three Independent Non-Executive Directors, namely Mr. Lau Sung Tat, Vincent (Chairman), Ms. Eugenia Yang and Mr. Chan Ying Kay. The audit committee has reviewed the first quarterly unaudited consolidated results of the Group for the Financial Period.

## DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the rules set out in Rules 5.48 to 5.67 of the GEM Listing Rules as the code of conduct for dealing in securities of the Company by the Directors (the "Required Standards of Dealings"). The Company has confirmed, having made specific enquiry of the Directors, that all the Directors have complied with the Required Standards of Dealings during the three months ended 30 June 2016.

## CORPORATE GOVERNANCE PRACTICES

The Company is committed to achieving high standards of corporate governance to safeguard the interests of its Shareholders and enhance its corporate value. The Company's corporate governance practices are based on the principles, code provisions and certain recommended best practices as set out in the Corporate Governance Code and Corporate Governance Report in Appendix 15 to the GEM Listing Rules (the"CG Code").

During the Financial Period, the Company had complied with the code provisions in the CG Code with the exception of the CG Code provision A.2.1 and A.6.7. The CG Code provision A.2.1 stipulates that the roles of the chairman of the Board of Directors (the "Chairman") and the Chief Executive Officer (the "CEO") should be separate and should not be performed by the same individual. In compliance with the CG Code Rule A.2.1, the Group separated the roles of Chairman and CEO since the appointment of Mr. Zou Donghai as the Chairman and an Executive Director on 16 October 2014. The Board considered that it was important for the Chairman to have extensive experience in the field of vessel liquefied natural gas utilization conversion, which is the newly developed and important business sector of the Group, in order to manage such new business and hence spent about three months' time to identify such appropriate person.

The CG Code provision A.6.7 requires that Independent Non-Executive Directors shall attend general meetings and develop a balanced understanding of the views of shareholders. 2 independent Non-Executive Directors attended annual general meeting held on 29 July 2016. The other independent Non-Executive Directors were obliged to be away for their business matters. The Board has continued to monitor and review the corporate governance principles and practices to ensure compliance.

The Board has maintained a balance of skills and experiences appropriate for the requirements of the businesses of the Group. Its composition represents a mixture of management, accounts and finance, marketing, manufacturing and procurement with comprehensive experience in and exposure to diversified businesses. It is the opinion of the Directors that the Board has the necessary skills and experience appropriate for discharging their duties as Directors in the best interest of the Company.

## PURCHASE, SALE OR REDEMPTION OF THE COMPANY'S LISTED SECURITIES

Neither the Company nor any of its subsidiaries had purchased, sold, or redeemed any of the listed securities of the Company during the Financial Period.

## COMPETING BUSINESS

Neither of the Directors and the controlling Shareholders of the Company or their respective close associates (as defined in the GEM Listing Rules) is or was interested in any business apart from the Group's business, that competes or competed or is or was likely to compete, either directly or indirectly, with the Group's business at any time during the three months ended 30 June 2016.

By order of the Board
**Zou Donghai**
*Chairman and Executive Director*

Hong Kong, 5 August 2016

*As at the date of this announcement, the Executive Directors are Mr. Zou Donghai, Mr. Rong Changjun, Mr. Zhang Xueming, Mr. Ho Chun Kit Gregory, Mr. Chan Lung Ming and Mr. Zheng Jian Peng; and the Independent Non-Executive Directors are Ms. Eugenia Yang, Mr. Lau Sung Tat, Vincent and Mr. Chan Ying Kay.*

*This announcement will remain on the "Latest Company Announcements" page of the GEM website at http://www.hkgem.com for at least 7 days from the date of its posting and on the websites of the Company at www.chinaoilgangran.com and http://chinaoilgangran.todayir.com.*