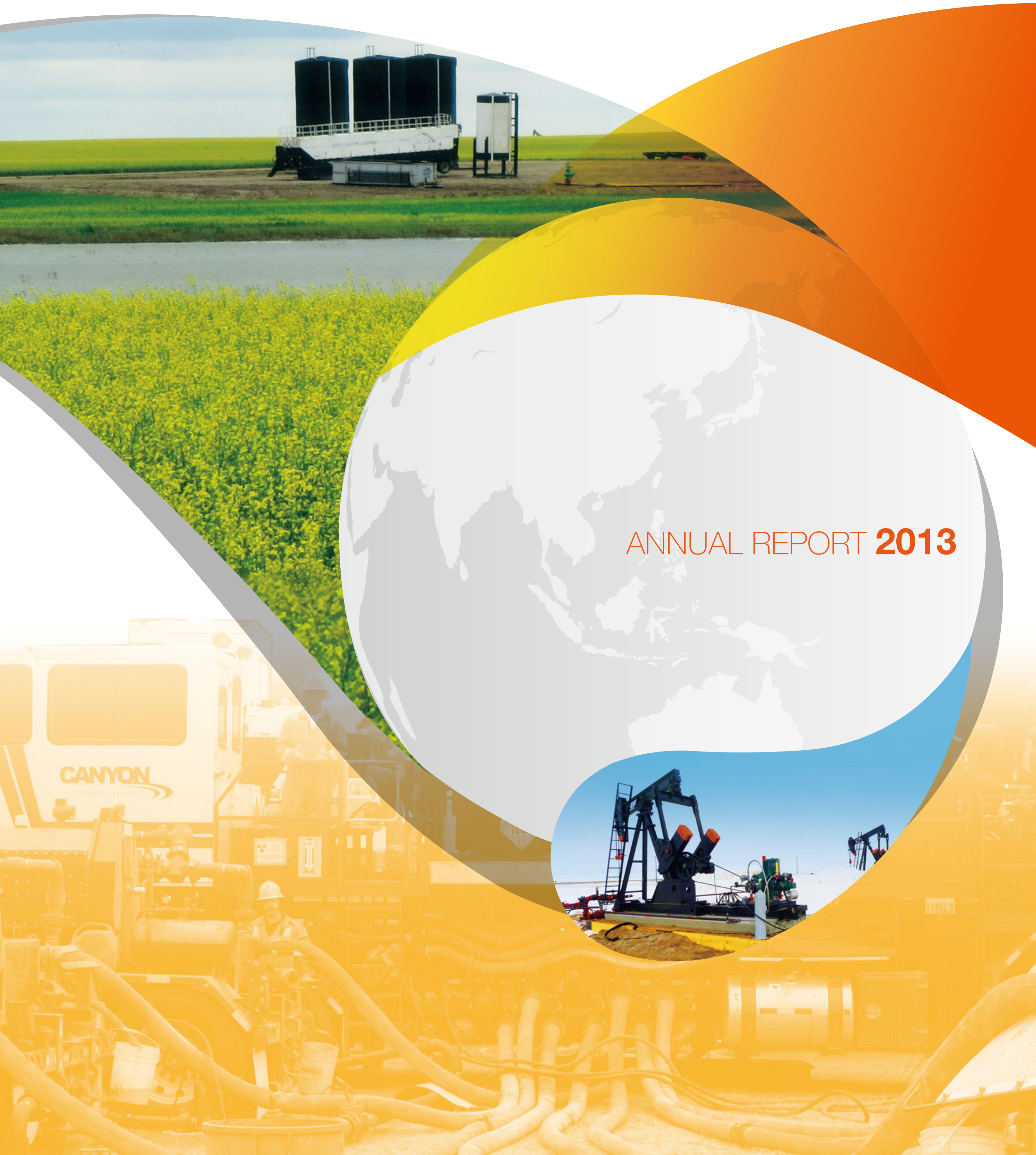
延長石油國際有限公司

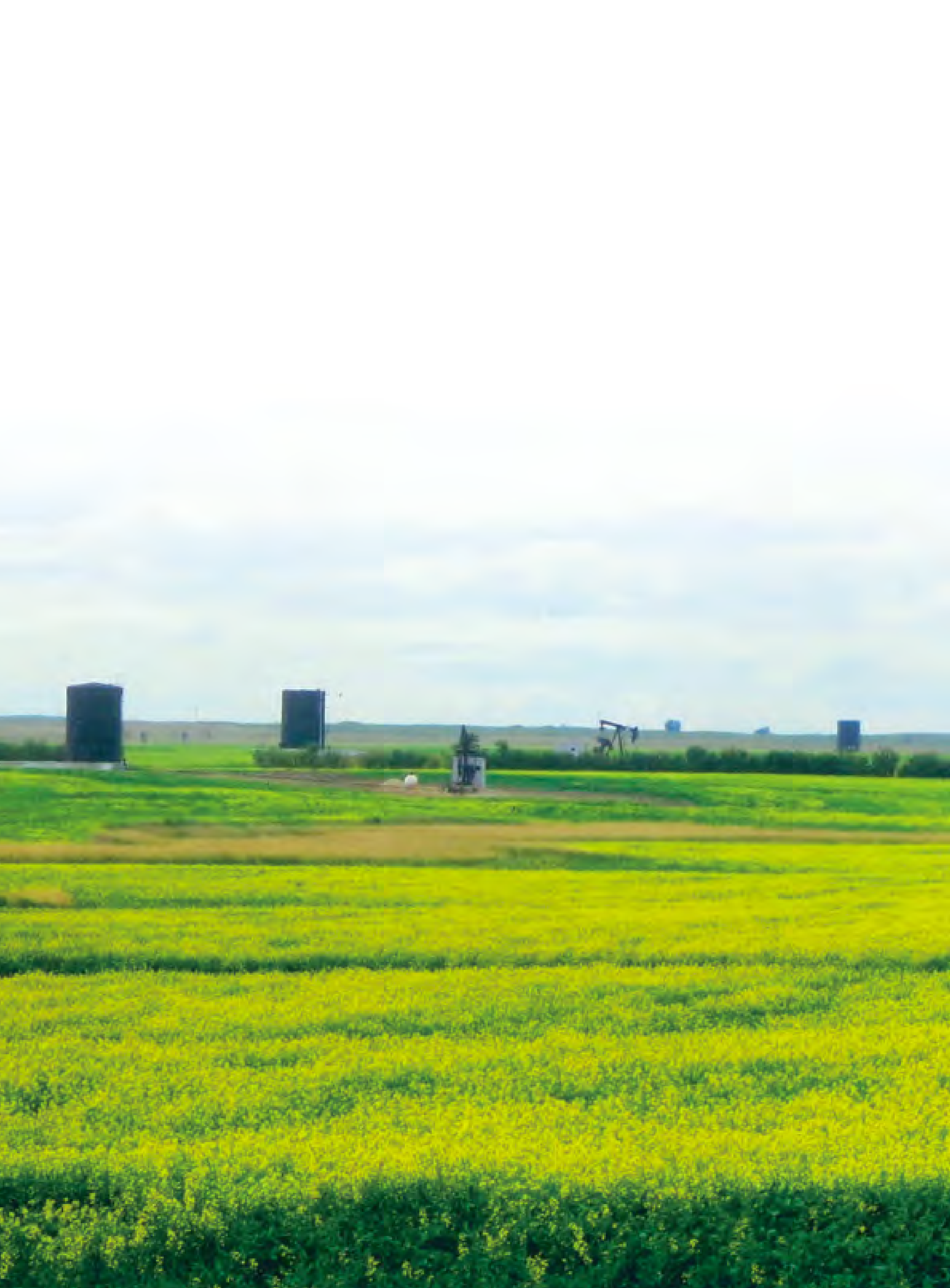
YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346



ANNUAL REPORT **2013**



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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Zhang Kaiyong *(Chairman)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Yang Jie
Mr. To Kwan

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming
Dr. Mu Guodong

COMPANY SECRETARY

Mr. Law Hing Lam

AUDIT COMMITTEE

Mr. Leung Ting Yuk *(Chairman)*
Mr. Ng Wing Ka
Mr. Sun Liming

REMUNERATION COMMITTEE

Mr. Sun Liming *(Chairman)*
Mr. Leung Ting Yuk
Mr. Hui Bo

NOMINATION COMMITTEE

Mr. Ng Wing Ka *(Chairman)*
Mr. Sun Liming
Mr. Hui Bo

AUTHORISED REPRESENTATIVES

Mr. Hui Bo
Mr. Law Hing Lam

AUDITORS

HLB Hodgson Impey Cheng Limited
Certified Public Accountants
31/F., Gloucester Tower
The Landmark, 11 Pedder Street
Central
Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
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Hong Kong

PRINCIPAL BANKERS

DBS Bank (Hong Kong) Limited
Industrial and Commercial Bank of China (Asia) Limited
Shanghai Pudong Development Bank Co., Ltd.
China Minsheng Bank Corporation Limited
Bank of China Limited

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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One Pacific Place
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Hong Kong

STOCK CODE

00346

WEBSITE

www.yanchangpetroleum.com

CHAIRMAN'S STATEMENT

On behalf of the board (the "Board") of directors (the "Director(s)") of Yanchang Petroleum International Limited (the "Company"), I am pleased to present the annual report of the Company and its subsidiaries (the "Group") for the year ended 31 December 2013.

RESULT SUMMARY

In 2013, the Group recorded a turnover of HK$19.3 billion, being more than 1.5 times as compared to that of the last year. The increase mainly came from the significant growth of refined oil business in Henan Province of the PRC. Henan refined oil business contributed gross profit of HK$152 million for the year under review, an increase of more than 2.6 times as compared to HK$42.23 million of the last year. With significant growth in sales of Henan refined oil business during the year, the Group recorded a profit of HK$52.83 million as compared to a loss of HK77.25 million of last year, and earnings per share was HK0.38 cents. The turnaround from a loss to a profit demonstrated a satisfactory upward trend of refined oil business in the PRC.

Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") has become the single largest shareholder of the Company through capital contribution since December 2012. Under enormous support of Yanchang Petroleum Group, the Company has entered into a supplemental agreement with Office Des Mines Nationales Et Des Industries Strategiques ("OMNIS") in relation to the extension of exploration period of the two oilfield blocks in Madagascar and has been issued the construction license for seismic exploration projects. Sales volume of refined oil and profit of Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") have achieved its annual operation targets. Construction of main body of valve chamber for Xingang subpipeline and Beijing-Guangzhou railway culverts has been completed and the pipeline construction project has been almost completed. In addition, due diligence, quotation, execution of arrangement agreement, approval and completion in relation to the acquisition of Novus Energy Inc. ("Novus") in Canada has been undergone. 2013 was an astonishingly challenging and yet fruitful year for the Company.

BUSINESS REVIEW

In-production Oil and Gas Business

On 3 September 2013, the Company entered into an arrangement agreement with Novus, a company incorporated in Canada, to acquire all the issued shares of Novus pursuant to a plan of arrangement. The acquisition of Novus was completed on 20 January 2014 (local time in Calgary, Canada) and Novus was delisted thereafter from TSX Venture Exchange in Canada and has then become a wholly owned subsidiary of the Company.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW *(Continued)*

In-production Oil and Gas Business *(Continued)*

As at 31 December 2013, the Proved plus Probable (2P) Reserves of Novus was 21.75 million barrels of oil equivalent ("BOE") as evaluated by Sproule Associates Limited, a world-wide technical consultant. As a result of the efforts made by the existing management of Novus, the daily average production of Novus increased from merely 300 BOE in 2009 to 3059 BOE in 2012 and approximately 4000 BOE in 2013.

In 2014, Novus plans to drill 89 wells with capital expenditure of Canadian dollars 81.73 million, and targets to achieve at least 20% growth in the daily average production.

The management team of Novus has extensive knowledge on oil and gas market in Canada, in particular Viking oil resources play, which will benefit the Company's further acquisition of oil and gas assets. Novus is planned to serve as a platform for the Company to continue to expand Viking oil field through acquisition of land and assets.

Refined Oil Trading Business

Trading volume of Henan Yanchang hit a record in 2013 with profit target met successfully. As at 31 December 2013, Henan Yanchang achieved sales volume of refined oil of 2.2 million tonnes with sales revenue of RMB15.2 billion and profit before taxation of RMB77.13 million, outperformed the operation and profit targets in 2013.

As the previous three-year refined oil agreement expired at the end of 2013, the entering of new refined oil agreement was approved at a special general meeting held on 27 February 2014, the annual caps for the supply of refined oil by Yanchang Petroleum Group for the three years ending 31 December 2016 were RMB18 billion. With stable and sufficient supply, Henan Yanchang will continue to conduct its refined oil business in the PRC on a scale not less than that in 2013.

The investment of Henan pipeline construction project is approximately RMB108 million, the Xingang sub-pipeline has been almost completed and is being commissioned for inspection and acceptance. In 2013, construction of main body of valve chamber for Xingang sub-pipeline and Beijing-Guangzhou railway culverts has been completed. Under the construction plan, equipment and electric instruments have to be installed for departure station, terminal station and valve chamber in the first quarter of 2014; commission, inspection and acceptance have to be conducted in April and May 2014. In order to facilitate the operation of pipeline business, a pipeline company was set up by Henan Yanchang in 2013. The Company acquired 70% equity interests in the pipeline company by contributing capital of RMB35 million.

In addition, communications with local government, China National Petroleum Corporation and the relevant authorities responsible for Lanzhou-Zhengzhou-Changsha oil pipeline have been conducted to accelerate the works of the pipeline project at later stage. Meanwhile, Henan Yanchang has been building up a customer base for pipeline business with an aim to come into operation in 2014, thereby increasing the efficiency of the Group.

Exploration Works

On 4 October 2013, the Company entered into a supplemental agreement with OMNIS for extension of exploration period for further two years for the Oilfield Blocks 3113 and 2104 in Madagascar. For the seismic exploration projects to be launched by the Company, OMNIS had issued the construction license for 2D seismic preparation on the Oilfield Blocks 3113 and 2104 on 25 November 2013.

The Company plans to complete the tenders to collect and process the geological data for 2D seismic exploration project covered 197 kilometers on the Oilfield Block 2104 by the first quarter of 2014, and to commence the construction after the end of raining season of Madagascar at the end of April 2014. Data collection is expected to complete in third quarter of 2014 and data processing and findings will be done by the end of 2014. Furthermore, a 2D seismic data collection on the Oilfield Block 3113 covered 470 kilometers is planned to commence in 2014.

CHAIRMAN'S STATEMENT

PROSPECTS

2014 is the first year that Yanchang Petroleum Group has become an absolute-controlling shareholder of the Company, and also the first year subsequent to the Company's acquisition of Novus. The Company will follow the guidelines of the strategies of Yanchang Petroleum Group. With strong support of Yanchang Petroleum Group, strict management will be exerted in Novus for achieving the 2014 budget. In addition, steady progress on the 2D seismic exploration projects of the oilfield blocks in Madagascar will be made. We will step up efforts to put Henan pipeline project into operation, and continue to acquire in-production oil and gas projects overseas so as to elevate the gas and oil production volume of the Group to a new level.

APPRECIATION

On behalf of the Board, I would like to extend my sincere gratitude to the Directors, the management team, all staff members, customers, suppliers, business partners, bankers and shareholders for their support and contribution to the Group over the years.

Mr. Zhang Kaiyong
Chairman

Hong Kong, 28 March 2014

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on Financial Results

	2013 HK$'000	2012 HK$'000	Change in %
Turnover	**19,354,899**	7,572,880	156%
Gross profit	**152,799**	42,236	262%
Gross profit margin	***0.8%***	*0.6%*	
Other revenue, gains and losses	**17,591**	(47,213)	N/A
Selling and distribution costs	**(2,171)**	(2,787)	(22%)
Administrative expenses	**(68,103)**	(51,511)	32%
Equity-settled share option expenses	**–**	(183)	(100%)
Finance costs	**(22,008)**	(16,010)	38%
Taxation	**(25,274)**	(1,785)	1,316%
Profit/(loss) for the year	**52,834**	(77,253)	N/A
Basic earnings/(loss) per share, HK cents	**0.38**	(1.13)	N/A

Turnover and Gross Profit

For the year under review, the Group's operating segments comprised: (i) storage, transportation, supply and procurement of oil related products and (ii) oil and gas exploration, exploitation and operation. All the turnover of the Group was derived from trading and distribution of oil related products business in the PRC for year ended 31 December 2013.

The Group recorded sales of HK$19,354,899,000 for the year under review which increased by more than 1.5 times as compared to HK$7,572,880,000 for the year ended 31 December 2012. The increase mainly came from the significant growth of refined oil business in Henan Province of the PRC. The overall gross profit margin for refined oil slightly increased from the last year of 0.6% to the current year of 0.8%. Henan refined oil business contributed gross profit of HK$152,799,000 for the year under review, an increase of more than 2.6 times as compared to HK$42,236,000 of the last year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Other revenue, gains and losses

In addition to the profit from trading and distribution of refined oil, there were other revenue and gains of HK$17,591,000 recorded for the year under review as compared to net loss of HK$47,213,000 in the last year. Other revenue, gains and losses mainly represented (i) interest income of HK$13,794,000 from Renminbi fixed term deposit; (ii) the exchange gain of HK$7,557,000; (iii) rental income from Henan properties of HK$2,571,000 and (iv) the fair value loss of HK$6,721,000 on the investment properties in Henan.

Selling and distribution costs

Selling and distribution costs reduced from the last year of HK$2,787,000 to the current year of HK$2,171,000 mainly due to the saving on transportation costs.

Administrative expenses

Administrative expenses included Directors' remuneration, staff costs, office rents, depreciation, administrative costs for listing, professional fees and etc. The increase in administrative expenses amounted to HK$16,592,000 for the year under review was mainly attributable to the transaction costs (including lawyer, technical consultant, accountant and other professional fees) incurred in 2013 for the acquisition of Novus.

Equity-settled share option expenses

As no share options had been granted during the year, there was no equity-settled share option expenses incurred for the year under review.

Finance costs

Finance costs of HK$22,008,000 were interest expenses incurred for bank borrowings from Henan Yanchang for running the refined oil business in the PRC. There was an increase of HK$5,998,000 as compared to the last year, which was the result of coping with the growth and development of the refined oil business.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Taxation

Tax expenses of HK$25,274,000 mainly represented the provision for the PRC enterprise income tax on the profit earned from refined oil business of Henan Yanchang during the year and the increase was due to the growth of the business.

Profit/(loss) for the year

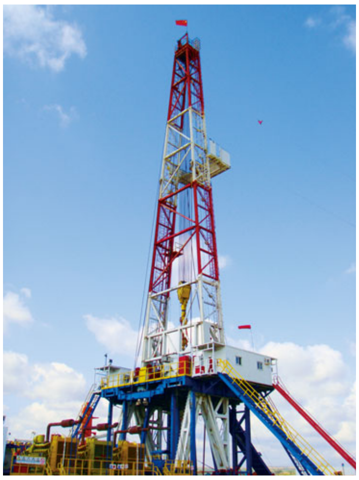
With significant growth in sales during the year, the Group recorded a profit of HK$52,834,000 as compared to a loss of HK77,253,000 of the last year. The turnaround from a loss to a profit demonstrated a satisfactory upward trend of refined oil business in the PRC. The basic earnings per share was HK$0.38 cents as compared to the last year of a loss per share of HK$1.13 cents.

Highlights on Financial Position

	2013 HK$'000	2012 HK$'000	Change in %
Property, plant and equipment	171,102	142,463	20%
Prepaid lease payments	20,962	20,949	0.1%
Investment properties	29,099	34,697	(16%)
Intangible assets	293,120	285,334	3%
Exploration and evaluation assets	8,584,612	8,572,971	0.1%
Available-for-sale investment	196,072	196,072	–
Goodwill	51,418	51,418	–
Inventories	28,106	76,299	(63%)
Prepayments, deposits and other receivables	130,790	265,178	(51%)
Cash and bank balances	848,460	634,146	34%
Trade and other payables	153,197	270,788	(43%)
Borrowings	320,000	212,820	50%

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles and construction-in-progress. The increase of 20% for the year was mainly attributable to the costs incurred for pipeline construction work in Henan. There was no other material acquisition or disposal of property, plant and equipment during the year ended 31 December 2013.



Prepaid lease payments

Prepaid lease payments represented the leasehold lands in Madagascar and the PRC owned by the Group. The slight increase in the amount was due to the fluctuation in exchange rate during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Investment properties

Investment properties comprised (i) gas stations and properties in the PRC owned by Henan Yanchang either leased out in return of receiving rental income or hold for capital appreciation; and (ii) a land hold for capital appreciation in Madagascar. The amount of investment properties decreased by HK$5,598,000 was mainly attributable to the fair value loss of the gas stations in the PRC.

Intangible assets

Intangible assets amounted to HK$293,120,000 as at 31 December 2013 represented the valuation and recognition of a supply agreement signed with Yanchang Petroleum Group which enables Henan Yanchang to have stable and sufficient supply of refined oil in the PRC. The increase of HK7,786,000 was due to the fluctuation in exchange rate during the year.

Exploration and evaluation assets

Exploration and evaluation assets represented the valuation of the Group's investment in the Oilfield Blocks 2104 and 3113 in Madagascar. The addition of HK$11,641,000 represented non-seismic geophysical exploration and well test costs put into the Oilfield Block 3113 through the Oilfield Block 3113 joint management committee ("3113 Joint Management Committee") during the year.

Available-for-sale investment

Available-for-sale investment represented the 21% equity interests in Gold Grand Investments Limited ("Gold Grand") held by the Group, a company has a freehold land in Madagascar and also has the right to engage in the development of industrial park as well as provision of processing, production and sales of relevant energy and utilities businesses in Madagascar.

Goodwill

Resulting from the acquisition of 70% interests in Henan Yanchang in 2011, a goodwill of HK$51,418,000 arising on consolidation was recorded. Since no impairment subsequent to the acquisition had been made during the year, the amount of such goodwill remained the same as at 31 December 2012.

Inventories

Inventories represented refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2013.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly represented prepayments made for the purchase of refined oil by Henan Yanchang for its refined oil business and funds deposited in the 3113 Joint Management Committee for the development of the Oilfield Block 3113. Prepayments, deposits and other receivables reduced by HK$134,388,000 was mainly due to the decrease of prepayments made for the purchase of refined oil as at year end in Henan Yanchang.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Cash and bank balances

As at 31 December 2013, cash and bank balances increased by HK$214,314,000 as compared to the last year to HK$848,460,000.

Trade and other payables

Trade and other payables reduced by HK$117,591,000 was mainly due to the decrease in receipt-in-advance made by Henan Yanchang's customers of refined oil as at year end.

Borrowings

There was an increase in bank loans drawdown by Henan Yanchang to finance its significant refined oil business growth in the PRC.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by bank borrowings together with its internal resources for the year ended 31 December 2013.

	2013	2012
	HK$'000	HK$'000
Current assets	**1,007,356**	975,623
Total assets	**10,353,741**	10,279,527
Current liabilities	**481,831**	491,922
Total liabilities	**567,391**	576,803
Total equity	**9,786,350**	9,702,724
Gearing ratio	**5.8%**	5.9%
Current ratio	**209%**	198%

The Group had outstanding bank borrowings of HK$320,000,000 under the books of Henan Yanchang as at 31 December 2013 (31 December 2012: HK$211,820,000). The Group has obtained bank facilities of RMB1,550,000,000 (equivalent to approximately HK$1,984,000,000) from banks in the PRC. As at the year end, the Group had cash and bank balances of HK$848,460,000 (31 December 2012: HK$634,146,000). In view of ample cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

Measured on the basis of total liabilities as a percentage of total equity, the gearing ratio of the Group stated more or less the same as that of the last year and remained in a low and healthy level of 5.8% as at 31 December 2013 (31 December 2012: 5.9%). The current ratio of the Group stood at 209% as at 31 December 2013 (31 December 2012: 198%), measured on the basis of current assets as a percentage of current liabilities, reflected the Group maintained a robust financial position and a high level of financial liquidity.

TREASURY MANAGEMENT AND POLICES

The Group adopts a prudent approach for its cash management and risk control. The objective of the Group's treasury policies is to minimise risks and exposures due to the fluctuations in foreign currency exchange rates and interest rates.

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar and Renminbi. The Group has obtained bank facilities and borrowings with stable interest rates. The Group does not foresee any significant interest rate risks. Since the Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar and Renminbi, the Group does not anticipate any material foreign exchange exposures and risks.

During the year under review, no hedging transactions related to foreign exchange had been made, proper steps will be taken when the management considers appropriate.

MATERIAL ACQUISITIONS AND DISPOSALS

On 3 September 2013, the Group entered into an arrangement agreement with Novus to acquire all the issued shares of Novus pursuant to a plan of arrangement under the Business Corporations Act (Alberta) of Canada. The aggregate consideration of the acquisition was approximately Canadian dollars 232 million (approximately HK$1.72 billion), which would be fully satisfied by cash. In order to finance the acquisition, the Group entered into a subscription agreement with Yanchang Petroleum Group (Hong Kong) Limited ("Yanchang Petroleum HK"), a wholly owned subsidiary of Yanchang Petroleum Group, on 28 August 2013 to issue the convertible bond in the principal amount of HK$1.6 billion payable in cash at a conversion price of HK$0.4 per conversion share.

The subscription of convertible bond was completed on 7 January 2014 and the proceeds from the issuance of convertible bond had been used to finance substantial part of the consideration for the acquisition. The acquisition of Novus was successfully completed on 20 January 2014 (local time in Calgary, Canada), and Novus was delisted thereafter from TSX Venture Exchange in Canada and has then become a wholly owned subsidiary of the Company.

Subsequent to the acquisition of Novus, on 27 January 2014, the whole principal amount of HK$1.6 billion were fully converted by Yanchang Petroleum HK into 4,000,000,000 shares of the Company at the conversion price of HK$0.4 each.

Save as the aforesaid, the Group had no other material acquisitions and disposals for the year ended 31 December 2013.

SIGNIFICANT INVESTMENTS

Save as holding 21% equity interests in Gold Grand, the Group did not hold any significant investments during the year ended 31 December 2013.

MANAGEMENT DISCUSSION AND ANALYSIS

CAPITAL COMMITMENT

As at 31 December 2013, the Group had committed to pay the balances of a pipeline construction costs amounted to HK$79,344,000 (31 December 2012: HK$2,050,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2013.

PLEDGE OF ASSETS

As at 31 December 2013, none of the Group's assets had been pledged for obtaining the bank borrowings from the banks in the PRC (31 December 2012: Nil).

CONTINGENT LIABILITY

As at 31 December 2013, the Group did not have any significant contingent liabilities (31 December 2012: Nil).

LITIGATION

As at 31 December 2013, the Group had no litigation.

EMPLOYEES AND REMUNERATION POLICY

As at 31 December 2013, the Group's total number of staff was around 90 (31 December 2012: 70). Salaries of employees are maintained at a competitive level with total staff costs (excluding the equity-settled share-based expenses) for the year ended 31 December 2013 amounted to HK$11,724,000 (2012: HK$11,615,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice, while remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and share option scheme are offered to the employees. During the year, no share options were granted to the eligible participants under the Company's share option scheme and all outstanding share options were lapsed as at 31 December 2013 (31 December 2012: 12,000,000).

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Zhang Kaiyong

Aged 48, was appointed as an executive Director and chairman of the Board on 1 April 2012. Mr. Zhang is currently the deputy general manager of Yanchang Petroleum Group, the chairman of Shaanxi Yanchang Petroleum Chemical Engineering Co., Ltd. (a company listed on the Shanghai Stock Exchange, SH.600248), the chairman and the Party Committee secretary of 陝西化建工程有限責任公司 (Shaanxi Chemical and Construction Engineering Co., Ltd.). Mr. Zhang holds a bachelor's degree in industrial electrical automation professional from 陝西工學院 (Shaanxi University of Technology), is Executive Master of Business Administration (EMBA) in senior management in Xi'an Jiaotong University and a senior engineer. Mr. Zhang has extensive experience in the restructuring and listing of state-owned enterprises, and the governance of listed companies, has outstanding professional standards and management capabilities in the field of petrochemical engineering. He was selected as the 3rd Integrity of Personal in Shaanxi Province, national excellent construction entrepreneurs, the representative of the 11th People's Congress of Shaanxi Province. He was granted the honor title of national chemical system model worker by the National Human Resources and Social Securities and the Petroleum and Chemical Association in year 2008. Mr. Zhang is currently a director of an indirect wholly owned subsidiary of the Company, Yanchang International (Canada) Limited ("YICL"). Save as the aforesaid, Mr. Zhang did not hold any directorship in other listed companies during the past three years.

Mr. Ren Yansheng

Aged 48, was appointed as an executive Director and the Chief Executive Officer of the Company on 10 April 2012. Mr. Ren holds a master's degree in Economic, major in accountancy profession from 中國人民大學 (Renmin University of China), and is a qualified accountant registered in China. Mr. Ren engages in the finance and investment management areas for more than 20 years. Mr. Ren had acted as an independent director of 河南東方銀星投資股份有限公司 (Henan Oriental Silver Star Investment Co., Limited) (a company listed on the Shanghai Stock Exchange, SH.600753) and had worked in 中國新興（集團）總公司 (China Xinxing (Group) Corporation) and 中國誠信證券評估有限公司 (China Cheng Xin Securities Appraisal Company Limited), involving in the areas such as financial management as well as investment consultancy and management. Mr. Ren has extensive experience in corporate investment and finance, corporate restructuring and issuance of securities. Mr. Ren is currently a director of certain subsidiaries of the Company (including YICL). Save as the aforesaid, Mr. Ren did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS *(Continued)*

Mr. Hui Bo

Aged 40, was appointed as an executive Director, the authorized representative of the Company and a member of each of the Remuneration Committee and the Nomination Committee of the Company on 1 April 2012. He was also appointed as the Vice President of the Company on 10 April 2012. Mr. Hui is currently the deputy general manager of Yanchang Petroleum Group (Hong Kong) Co., Limited, the manager of 陝西延長石油(集團)財務中心證券部 (Shaanxi Yanchang Petroleum (Group) Financial Centre Securities Department). Mr. Hui holds a bachelor's degree in computer professional in the department of computer science from 中國長沙國防科技大學 (University of National Defense Technology) in Changsha, China, and then was granted the e-commerce master's degree in the business school from University of Montreal, Canada, and passed in the first level of the Chartered Financial Analyst (CFA). Mr. Hui had worked in 西安衛星測控中心 (Xi'an Satellite Control Centre), 西安高新技術產業開發區管委會 (the management committee of Xi'an Hi-tech Industry Development Zone) and a securities company, SWIFTTRADE, in Montreal, Canada. Mr. Hui has extensive experience in international capital market investments and is familiar with international and domestic securities markets. Mr. Hui is currently a director of certain subsidiaries of the Company. Mr. Hui did not hold any directorship in other listed companies during the past three years.

Mr. Shen Hao

Aged 60, was appointed as an executive Director on 11 January 2010. Mr. Shen holds a postgraduate qualification and is a senior engineer. He is currently the Chairman of Yanchang Petroleum Group and is the party committee secretary. Mr. Shen is the leader of several government departments and state-owned enterprises which engaged in oil and natural gas exploration and exploitation, and coal chemical production and operation. He has abundant leadership experience in the oil, gas and coal chemical industries. He was the president of 陝西銅川礦務局 (Tongchuan Mining Bureau of Shaanxi), the deputy general manager of 陝西省煤炭運銷(集團)有限責任公司 (Shaanxi Coal Transportation of Marketing (Group) Limited), the Chairman of 陝西省彬長礦區開發建設公司 (Shaanxi Binchang Mining Development and Construction Company), the Chairman of 陝西省煤業集團 (Shaanxi Coal Industrial Group) and the Chairman of 陝西省煤業化工集團有限責任公司 (Shaanxi Coal Chemical and Industrial Group Limited). He was the representative of the 17th National Congress of the Communist Party of China, the representative of the 11th Provincial Party Congress, and the alternate member of the Commission of Communist Party of Shaanxi Province and the representative of the 9th and 11th People's Congress of Shaanxi Province and the committee member of the 9th Chinese People's Political Consultative Conference. Mr. Shen was elected the executive vice president of China Petroleum Enterprise Association in September 2009. Mr. Shen did not hold any directorship in other listed companies during the past three years.

Mr. Feng Dawei

Aged 57, was appointed as an executive Director on 11 January 2010. Mr. Feng holds a bachelor degree in Northwestern Polytechnical University in the PRC and a master degree in chemical engineering. He is a senior engineer and has decades of leadership experience and professional knowledge in oil and natural gas exploration, exploitation and processing, petrochemical and coal chemical. He is currently the deputy general manager of Yanchang Petroleum Group and the party committee member of the Communist Party. He was the vice president and president of planning office of 陝西省石油化學工業局規劃處 (Shaanxi Petroleum Chemical and Industrial Bureau) and the deputy general manager of 陝西省延長石油工業集團公司 (Shaanxi Yanchang Petroleum Industrial Group Company). Mr. Feng is currently the chairman of the board of directors and the authorised representative of Henan Yanchang, an indirect non-wholly owned subsidiary of the Company. Mr. Feng did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS *(Continued)*

Mr. Yang Jie

Aged 48, was appointed as an executive Director on 1 April 2012. Mr. Yang is currently the general manager and the deputy party committee secretary of 陝西延長石油(集團)銷售公司 (Shaanxi Yanchang Petroleum (Group) Sales Company). Mr. Yang holds a bachelor's degree in clinical professional in the department of medical school from Shihezhi University in Xinjiang (新疆石河子大學). He had worked in 陝西煤業化工集團運銷公司 (Shaanxi Coal Chemical and Industrial Group Transportation Company), served as the deputy officer, the manager of planning operation, the assistant general manager and etc. He worked in 陝西延長石油(集團)銷售公司 (Shaanxi Yanchang Petroleum (Group) Sales Company) as party committee member, deputy general manager and the general manager of 四川銷售公司 (Sichuan Sales Company) in year 2009, and then served as the deputy party committee secretary and deputy general manager in (Shaanxi Yanchang Petroleum (Group) Productions Distribution Company) and the chairman of 延長殼牌公司 (Yanchang Shell Company). Mr. Yang is very familiar with the marketing and sales terminal network construction in oil business, and has extensive experience in enterprise management in the petroleum industry. Mr. Yang is currently a director of Henan Yanchang. Mr. Yang did not hold any directorship in other listed companies during the past three years.

Mr. To Kwan

Aged 39, was appointed as an executive Director on 1 April 2012. Mr. To holds a bachelor degree in commerce (accounting and finance) from The University of Melbourne, Australia. Mr. To has been the financial controller and chief financial officer of various Hong Kong listed companies. He has extensive experience in accounting, corporate finance, and merger and acquisition. He is a member of the Hong Kong Institute of Certified Public Accountants, and also a member of the Certified Practising Accountants, Australia. Mr. To did not hold any directorship in other listed companies during the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Wing Ka

Aged 44, was appointed as an independent non-executive Director on 7 January 2005. Mr. Ng is also the Chairman of the Nomination Committee and a member of the Audit Committee of the Company. Mr. Ng graduated with a Bachelor of Laws Degree and a Post-graduated Certified in Laws Degree from The University of Hong Kong. He is the partner of Tung, Ng, Tse & Heung, Solicitors. He is now the legal adviser as to Hong Kong laws of the Foreign Economics and Trade Committee of the People's Government of Chongqing City (重慶市對外經濟貿易委員會) and (中豪律師事務所) in Chongqing City, the PRC. Mr. Ng is also the vice president of The Chinese Manufacturers' Association of Hong Kong and a member of the Chinese People's Political Consultative Conference of Chongqing City, the PRC. Mr. Ng is now an independent non-executive director of China Weaving Materials Holdings Limited (a company listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange")). Save as the aforesaid, Mr. Ng did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Leung Ting Yuk

Aged 39, was appointed as an independent non-executive Director on 3 December 2009. Mr. Leung is also the Chairman of the Audit Committee and a member of the Remuneration Committee of the Company. Mr. Leung holds a bachelor's degree of Commerce with major in accounting in University of Wollongong, Australia. He is a member of the Certified Practising Accountants, Australia and the Hong Kong Institute of Certified Public Accountants. He has over 10 years' experience in accounting and auditing. Mr. Leung has been employed as the chief financial officer of ZMFY Automobile Glass Services Limited ("ZMFY") since 31 October 2012. ZMFY is a company engaged in the sales and installation of automobile glasses in China. Mr. Leung is responsible for the preparation of ZMFY's financial statements as well as the review and development of the effective financial policies and control procedures in ZMFY. Save as the aforesaid, Mr. Leung did not have any directorship in other listed companies during the past three years.

Mr. Sun Liming

Aged 60, was appointed as an independent non-executive Director, the Chairman of the Remuneration Committee and a member of each of the Audit Committee and the Nomination Committee of the Company on 1 April 2012. Mr. Sun holds a bachelor's degree in management engineering from Xi'an Jiaotong University, is currently the managing director of Lishan Company Limited. Mr. Sun had worked in state-owned sectors for various economic and financial positions, and served as the chief economist in 中國電子進出口陝西公司 (China Electronics Import and Export Shaanxi Company). Mr. Sun has extensive experience in corporate planning, and economic and financial management. Mr. Sun did not hold any directorship in other listed companies during the past three years.

Dr. Mu Guodong

Aged 56, was appointed as an independent non-executive Director on 28 December 2012. Dr. Mu was graduated from the School of Economics and Finance of Xi'an Jiaotong University (formerly known as "Shaanxi Institute of Finance & Economics") with a Master degree of Economics in 1988. He was appointed by the State Education Commission of the People's Republic of China as a visiting scholar of Macquarie University in Australia in 1993. Dr. Mu obtained the Endeavour Awards from the Australian Government to study the doctorate degree of Economics in 1995, and obtained his Doctor of Philosophy degree from The University of New England in 2001. Since 2004, Dr. Mu has been the assistant to the general manager of the business development department of China Merchants Group Limited, the controlling shareholder of China Merchants Holdings (International) Company Limited (stock code: 144), a company listed on the Stock Exchange, and is currently the supervisor of each of the supervisory committee of 招商昆倫股權投資管理有限公司 (China Merchants Kunlun Equity Investment Management Co., Ltd.) and 中新建招商股權投資基金 (Zhong Xinjian Merchants Equity Investment Fund). Dr. Mu has extensive experience in corporate finance and management, merger and acquisition and corporate restructuring. He has led and participated in numbers of large-scale merger and acquisition projects over the past ten years, which included the projects of China Merchants Group Limited in Vietnam and Sri Lanka, the project of highway merger integration and the project of Qianhai Bonded Port Area in Shenzhen. Dr. Mu did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

COMPANY SECRETARY

Mr. Law Hing Lam

Aged 50, was appointed as the company secretary of the Company on 21 March 2011. Mr. Law is a member of the Hong Kong Institute of Certified Public Accountants and also a member of the American Institute of Certified Public Accountants. Mr. Law has extensive experience in accounting, auditing and finance. He was also appointed as the financial controller and an authorised representative of the Company with effect from 21 March 2011.

REPORT OF THE DIRECTORS

The directors have pleasure in submitting their report together with the audited financial statements of the Company and of the Group for the year ended 31 December 2013.

PRINCIPAL ACTIVITIES

The principal activity of the Company is investment holding. Details of the principal activities of the principal subsidiaries are set out in Note 25 to the financial statements.

SEGMENT INFORMATION

As analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2013 is set out in Note 7 to the financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2013 and the state of affairs of the Company and of the Group at that date are set out in the financial statements on 37 to 40.

The directors do not recommend the payment of any dividend in respect of the year (2012: Nil).

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the published consolidated results and assets and liabilities of the Group for the current year and last five years/period, as extracted from the audited financial statements:

Results

	12 months ended 31 December		9 months ended 31 December	12 months ended 31 March		
	2013	2012	2011	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**19,354,899**	7,572,880	512,210	1,020,769	1,039,758	1,276,639
Profit/(loss) before taxation	**78,108**	(75,468)	(138,823)	25,335	(44,795)	(1,834,729)
Taxation	**(25,274)**	(1,785)	(5,465)	(2,322)	(2,548)	(4,066)
Profit/(loss) for the year/period	**52,834**	(77,253)	(144,288)	23,013	(47,343)	(1,838,795)
Net profit/(loss) attributable to						
– Equity holder of the Company	**30,920**	(77,656)	(149,335)	23,013	(47,343)	(1,838,419)
– Non-controlling interests	**21,914**	403	5,047	–	–	(376)
	52,834	(77,253)	(144,288)	23,013	(47,343)	(1,838,795)

REPORT OF THE DIRECTORS

SUMMARY FINANCIAL INFORMATION *(Continued)*

Assets and Liabilities

	At 31 December			At 31 March		
	2013	2012	2011	2011	2010	2009
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**9,346,385**	9,303,904	9,193,510	8,534,034	8,537,208	8,554,869
Current assets	**1,007,356**	975,623	216,528	331,854	204,786	240,059
Total assets	**10,353,741**	10,279,527	9,410,038	8,865,888	8,741,994	8,794,928
Current liabilities	**(481,831)**	(491,922)	(358,251)	(104,521)	(132,839)	(273,832)
Non-current liabilities	**(85,560)**	(84,881)	(85,425)	(1,345)	(1,766)	(3,088)
Total liabilities	**(567,391)**	(576,803)	(443,676)	(105,866)	(134,605)	(276,920)
Total equity	**9,786,350**	9,702,724	8,966,362	8,760,022	8,607,389	8,518,008

This summary does not form part of the audited financial statements.

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

Details of movements in the property, plant and equipment of the Group during the year are set out in Notes 18 and 20 to the financial statements.

SHARE CAPITAL AND SHARE OPTIONS

Details of movements in the Company's share capital during the year and details of the Company's share option scheme are set out in Note 30 to the financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 31 to the financial statements.

PRE-EMPTIVE RIGHTS

There are no provisions for pre-emptive rights under the Company's Bye-laws or the laws of Bermuda, being the jurisdiction in which the Company is incorporated, which would oblige the Company to offer new shares on a pro rata basis to existing shareholders.

REPORT OF THE DIRECTORS

PURCHASE, SALE OR REDEMPTION OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2013, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities.

DISTRIBUTABLE RESERVES

At 31 December 2013, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, amounted to HK$4,536,551,000. This amount included the Company's contributed surplus in the amount of HK$54,045,000 at 31 December 2013, which may only be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$4,876,210,000 at 31 December 2013, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

In the year under review, the percentages of sales and purchases attributable to the Group's major customers and suppliers were as follows:

(1) The aggregate amount of sales attributable to the Group's five largest customers represented 92% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 56%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 96% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 39%.

As far as the Directors are aware, except for a shareholder owns more than 5% of the Company's issued share capital had beneficial interests in the Group's five largest suppliers, neither the Directors, their associates nor other shareholders (which, to the best knowledge of the Directors, own more than 5% of the Company's issued share capital) had any beneficial interests in the Group's five largest customers or five largest suppliers during the year.

MATERIAL RELATED PARTY TRANSACTIONS

Details of the related party transactions of the Group are set out in Note 39 to the consolidated financial statements.

PENSION SCHEMES AND COSTS

Details of the Group's pension schemes and costs charged to the consolidated statement of comprehensive income for the year are set out in Note 35 to the financial statements.

At 31 December 2013, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong (2012: HK$104,100).

REPORT OF THE DIRECTORS

DIRECTORS

The Directors of the Company during the year and at the date of this report were as follows:

Executive Directors

Mr. Zhang Kaiyong *(Chairman)*
Dr. William Rakotoarisaina *(Vice Chairman) (Resigned on 19 April 2013)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Yang Jie
Mr. To Kwan

Independent Non-Executive Directors

Mr. Ng Wing Ka
Mr. Leung Ting Yuk
Mr. Sun Liming
Dr. Mu Guodong

Pursuant to the Company's Bye-law 87(1), Mr. Ren Yansheng, Mr. Hui Bo, Mr. Feng Dawei and Mr. Yang Jie will retire by rotation and, being eligible, offer themselves for re-election at the 2014 AGM.

The Company has received, from each of the independent non-executive Directors, an annual confirmation of his independence pursuant to Rule 3.13 of the Rules Governing the Listing of Securities on the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 13 to 16 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company, for which can be terminated by either party giving notice in writing to the other party.

Save as disclosed above, no Director proposed for re-election at the forthcoming annual general meeting has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Note 39 to the financial statements, no Director had a material interest, whether directly or indirectly, in any contract of significance to the business of the Group to which the Company or any of its subsidiaries was a party during the year.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2013, the interests and short positions of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") were as follows:

Interests and short positions in shares, underlying shares and debentures of the Company

Name of Director	Nature of interest	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(Note)*	Long position	300,000	0.003%

Note: Out of these 300,000 Shares, Dr. Mu personally held 230,000 Shares and his spouse held 70,000 Shares. Dr. Mu is deemed to be interested in these 70,000 Shares under the SFO.

Save as disclosed above, as at 31 December 2013, none of the Directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

Apart from as disclosed under the heading "Share Option Scheme" below, at no time during the year and up to the date of this report was the Company or any of its subsidiaries a party to any arrangement to enable the Company's directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in Note 30 to the financial statements.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2013, the interests of persons, other than a director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

Interests and short positions of substantial shareholders in shares and underlying shares of the Company

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group *(Note 1)*	Interest of controlled corporation	Long Position	2,440,769,547	29.96%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") *(Note 1)*	Directly beneficially owned	Long Position	2,440,769,547	29.96%
Dr. Hui Chi Ming ("Dr. Hui") *(Note 2)*	Interest of controlled corporation	Long Position	1,088,915,555	13.37%
Wisdom On Holdings Limited ("Wisdom On") *(Note 2)*	Directly beneficially owned	Long Position	1,042,435,555	12.80%
Hoifu Petroleum Group Investment Holding Limited ("Hoifu") *(Note 3)*	Interest of controlled corporation	Long Position	1,042,435,555	12.80%

Note 1: Yanchang Petroleum Group beneficially held these 2,440,769,547 Shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK. Yanchang Petroleum Group is deemed to be interested in the said Shares under the SFO.

Note 2: Included in the shareholding in which Dr. Hui is interested, 1,042,435,555 Shares were beneficially held by Wisdom On, 44,400,000 Shares were beneficially held by Triumph Energy Group Limited and 2,080,000 Shares were beneficially held by Golden Nova Holdings Limited, all of which are corporations beneficially owned by Dr. Hui. Dr. Hui is deemed to be interested in such total of 1,088,915,555 Shares under the SFO.

Note 3: Hoifu beneficially held these 1,042,435,555 Shares through its subsidiary, Wisdom On. Hoifu is deemed to be interested in the said Shares under the SFO.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 31 December 2013.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) entered into a supply agreement dated 26 July 2011 (as supplemented by a supplemental agreement dated 1 November 2011) (the "Supply Agreement"), pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil. Further details of the transactions are included in Note 39 to the consolidated financial statements.

The independent non-executive Directors of the Company have reviewed the continuing connected transactions contemplated under the Supply Agreement mentioned above and have confirmed that:

(1) The aggregate value of the continuing connected transactions contemplated under the Supply Agreement for the year ended 31 December 2013 as indicated above did not exceed the 2013 annual cap amount of RMB13,500,000,000 (equivalent to approximately HK$16,265,000,000); and

(2) the continuing connected transactions were entered into (a) in the ordinary and usual course of business of the Group; (b) on normal commercial terms or on terms no less favourable to the Group than terms available from independent third parties; and (c) in accordance with the terms of the Supply Agreement governing such transactions, which are fair and reasonable and in the interests of the Company and its shareholders as a whole.

HLB Hodgson Impey Cheng Limited, the Company's auditors, were engaged to report on the Group's continuing connected transactions in accordance with Hong Kong Standard on Assurance Engagements 3000 "Assurance Engagements Other Than Audits or Review of Historical Financial Information" and with reference to Practice Note 740 "Auditor's Letter on Continuing Connected Transactions under the Hong Kong Listing Rules" issued by the Hong Kong Institute of Certified Public Accountants. HLB Hodgson Impey Cheng Limited have issued their unqualified letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

EVENTS AFTER THE REPORTING PERIOD

Details of the significant events after the reporting period of the Group are set out in Note 41 to the financial statements.

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 regarding its Directors' securities transactions on the Company's shares.

Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the year ended 31 December 2013.

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 26 to 34.

REPORT OF THE DIRECTORS

SUFFICIENCY OF PUBLIC FLOAT

As at the date of this Annual Report, based on information that is publicly available to the Company, and within the knowledge of the Directors, more than 25% of the issued capital of the Company were held by the public.

AUDITORS

A resolution will be proposed at the 2014 AGM to re-appoint HLB Hodgson Impey Cheng Limited as auditors of the Company for the ensuing year.

On behalf of the Board

Mr. Zhang Kaiyong
Chairman

Hong Kong, 28 March 2014

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICES

The Board is committed to achieve a high standard of corporate governance practices and procedures with a view to enhance the management of the Company as well as to safeguard the interests of the shareholders as a whole in terms of transparency, independence, accountability, responsibilities and fairness. The Board will review and improve the corporate governance practices from time to time to ensure that the Group is under the leadership of an effective Board to optimise return for the shareholders.

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2013, except for the following deviations:

1. code provision A.4.1 of the CG Code provides that the non-executive directors should be appointed for a specific term. Mr. Ng Wing Ka, an independent non-executive Director, was not appointed for a specific term but he is subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company.

2. code provision A.4.2 of the CG Code provides that all directors appointed to fill a casual vacancy should be subject to election by shareholders at the first general meeting after their appointment. In accordance with the Bye-laws of the Company, any Director appointed to fill a casual vacancy shall hold office only until the next following annual general meeting ("AGM") of the Company and shall then be eligible for re-election. The Board considers that such a deviation is not material as casual vacancy seldom happens and duration between appointment to fill casual vacancy and the immediate following AGM of the Company is less than one year and is considered to be short.

3. code provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Dr. Mu Guodong was unable to attend the special general meeting of the Company held on 23 December 2013 due to other ad hoc engagements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors of the Company confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2013.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

The Board serving the important function of guiding the management, currently comprises:

(a) seven executive Directors, namely Mr. Zhang Kaiyng (Chairman), Mr. Ren Yansheng (Chief Executive Officer), Mr. Hui Bo (Vice President), Mr. Shen Hao, Mr. Feng Dawei, Mr. Yang Jie and Mr. To Kwan; and

(b) four independent non-executive Directors required under Rule 3.10(1) of the Listing Rules, namely Mr. Ng Wing Ka, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong which represent more than one-third of the total number of the members of the Board. One of the independent non-executive Directors has appropriate professional qualifications and accounting and related financial expertise required under Rule 3.10(2) of the Listing Rules.

The respective biographical details of each of the Directors are disclosed in the section of "Directors' and Senior Management's Biographies" in this annual report. Details of changes in the Board during the year are set out in the "Report of the Directors" of this report.

The Company considers that the Board members have the necessary skills and experience appropriate for discharging their duties as Directors in the best interests of the Company and that the current Board size is adequate for its present operations.

Each of the Directors keeps abreast of his responsibilities as a Director of the Company and of the conduct, business activities and development of the Company. All Directors are updated from time to time with development in the laws and regulations applicable to the Company and each of the independent non-executive Directors has made annual confirmation that he complied with the independence criteria set out in Rule 3.13 of the Listing Rules. The Directors consider that all the four independent non-executive Directors are independent under these independence criteria and are capable to effectively exercise independent judgment.

Roles and Responsibilities of the Board and Delegated Functions of the Management

The Board is responsible for the leadership and overall control of the Company, oversees the Group's business, formulates strategic plans/decisions and monitors financial and operational performances, and is collectively responsible for promoting the success of the Company by directing and supervising its affairs. In practice, the Board takes responsibilities for decision making in all major matters of the Company which include, approving and monitoring all policy matters, setting of objectives, annual budgets and overall strategies, material transactions, appointment of directors and other significant financial and operational matters. The day-to-day management, administration and operation of the Company are delegated to the senior executives under the direction and supervision of the Chief Executive Officer of the Company. These responsibilities include the implementation of decisions of the Board, the co-ordination and direction of day-to-day operation and management of the Company in accordance with the management strategies and plans approved by the Board. Approval has to be obtained from the Board prior to any significant transactions entered into by these senior executives and the Board has the full support from them to discharge its duties and responsibilities.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions including (i) developing and reviewing the Company's policies, practices on corporate governance and make recommendations to the Board; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and (iv) reviewing the Company's compliance with the code and disclosure in the corporate governance report.

Appointment and Re-election of Directors

According to the Bye-laws of the Company, the Directors shall have the power from time to time and at any time to appoint any person as a Director either to fill a casual vacancy on the Board or as an addition to the existing Board. Any Director so appointed by the Board shall hold office only until the next following annual general meeting of the Company and shall then be eligible for re-election at that meeting.

Besides, at each annual general meeting, one-third of the Directors for the time being (or, if their number is not a multiple of three (3), the number nearest to but not less than one-third) shall retire from office by rotation provided that every Director shall be subject to retirement at least once every three years.

Board Diversity Policy

The Board adopted the board diversity policy ("Board Diversity Policy") in accordance with the requirement set out in the CG Code. Such policy aims to set out the approach to achieve diversity on the Board. All Board appointments shall be based on meritocracy, and candidates shall be considered against objective criteria, having due regard for the benefits of diversity on the Board. Selection of candidates shall be based on a range of diversity perspectives, including but not limited to, gender, age, cultural and educational background, ethnicity, professional experience, skills, knowledge and length of service. The ultimate decision shall be based on merit and contribution that the selected candidates shall bring to the Board. The Nomination Committee monitors, from time to time, the implementation of the Board Diversity Policy, and reviews, as appropriate, the said policy to ensure its effectiveness.

Board Meetings

The Board conducts meetings on a regular basis and on an ad hoc basis, as required by business needs. The Bye-laws of the Company allows board meetings to be conducted by way of telephone or video conference and any resolutions to be passed by way of written resolutions circulated to and signed by all Directors from time to time when necessary unless any matters in which a substantial shareholder or a Director or their respective associates has conflict of interest.

For the Board meetings, sufficient 14 days' notices for regular board meetings and reasonable days for non-regular Board meetings were given to all Directors so as to ensure that each of the them had an opportunity to attend the meetings, and agendas and accompanying board papers were given to all Directors in a timely manner before the appointed date of the Board meetings. Every Board member has full access to the advice and services of the company secretary with a view to ensuring that Board procedures, and all applicable rules and regulations are followed. Sufficient information was also supplied by the management to the Board to enable it to discharge its duties and to make decisions, which are in the best interests of the Company.

Minutes of all Board meetings recording sufficient details of matters considered and decisions reached are kept by the company secretary of the meetings and are open for inspection by the Directors.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Directors' Continuous Professional Development

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Companies Ordinance/Act and corporate governance practices organized by external professional bodies in Hong Kong so that they can continuously update and further improve their relevant knowledge and skills.

From time to time, Directors are provided with written materials to develop and refresh their professional knowledge and skills; whereas the company secretary also arranges seminars on the latest updates and development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties and to enhance their awareness of good corporate governance practices. During the year, the Company has arranged a seminar for all Directors and company secretary of the Company presented by the Hong Kong practising lawyers on the topics of (i) Guideline on the Responsibilities and Legal Obligations of directors of listed issuers; (ii) Inside Information Provisions under the SFO; and (iii) Appendix 10 (Model Code for Securities Transactions by Directors of Listed Issuers) and Appendix 14 (Corporate Governance Code and Corporate Governance Report) of the Listing Rules of the Stock Exchange. A record of the training received by the respective Directors are kept and updated by the company secretary of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the Chairman and the Chief Executive Officer have been held by separate individuals with a view to maintain an effective segregation of duties between the management of the Board and the day-to-day management of the Group's business and operations.

One of the important roles of the Chairman is to provide leadership to the Board to ensure that the Board always acts in the best interests of the Group. The Chairman shall ensure that the Board works effectively and fully discharges its responsibilities, and that all key issues are discussed by the Board in a timely manner. All Directors have been consulted about any matters proposed for inclusion in the agenda. The Chairman has delegated the responsibility of drawing up the agenda for each board meeting to the Chief Executive Officer and the company secretary. With the support of the Chief Executive Officer and the company secretary, the Chairman seeks to ensure that all Directors are properly briefed on issues arising at any board meeting and have received adequate and reliable information in a timely manner.

NON-EXECUTIVE DIRECTORS

The independent non-executive Directors, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong were appointed for a specific term of two years whereas Mr. Ng Wing Ka, the other independent non-executive Director, was not appointed for a specific term. But all of these four independent non-executive Directors are subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company at the annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

The Company has established three Board committees, namely the Audit Committee, the Remuneration Committee and the Nomination Committee with defined terms of reference, to assist the Board in discharging its duties and responsibilities. Each Committee has authority to engage outside consultants or experts as it considers necessary to discharge the Committee's responsibilities. Minutes of all committees meetings are circulated to their members. To further reinforce independence and effectiveness, all Audit Committee members are independent non-executive Directors, and the Nomination and Remuneration Committees have been structured with a majority of independent non-executive Directors as members.

Audit Committee

The Audit Committee currently comprises the three independent non-executive Directors, namely Mr. Leung Ting Yuk, Mr. Ng Wing Ka and Mr. Sun Liming. Mr. Leung Ting Yuk is the chairman of the Audit Committee. The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the internal control and financial reporting matters. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2013.

The Audit Committee is responsible for the appointment of external auditors, review of the Group's financial information and overseeing the Group's financial reporting system and internal control procedures. It is also responsible for reviewing the interim and annual results of the Group prior to recommending them to the Board for approval. It meets regularly to review financial reporting and internal control matters and to this end has unrestricted access to the Company's external auditors. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2013, the Audit Committee held two meetings. At the meetings, the committee reviewed the annual results for the year ended 31 December 2012 and the interim results for the period ended 30 June 2013 respectively with the external auditors; and reviewed and discussed the Group's financial reporting matters and internal control functions.

Remuneration Committee

The Remuneration Committee currently comprises two independent non-executive Directors, namely Mr. Sun Liming and Mr. Leung Ting Yuk, and an executive Director, Mr. Hui Bo. Mr. Sun Liming is the chairman of the Remuneration Committee.

The Remuneration Committee was established for the purpose of making recommendations to the Board on the Company's policies and structure on remuneration of all Directors (including independent non-executive Directors) and senior management. The committee has adopted the approach under B.1.2(c)(ii) of the code provisions to make recommendations to the Board on the remuneration packages of individual executive Directors and senior management. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2013, the Remuneration Committee held one meeting. At the meeting, the committee reviewed the existing remuneration package of all Directors and senior management.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Nomination Committee

The Nomination Committee currently comprises two independent non-executive Directors, namely Mr. Ng Wing Ka and Mr. Sun Li Ming, and an executive Director, Mr. Hui Bo. Mr. Ng Wing Ka is the chairman of the Nomination Committee.

The Nomination Committee is responsible for reviewing the structure, size and composition (including the skills, knowledge and experience) of the Board at least annually and making recommendations on any proposed changes to the Board to complement the Company's corporate strategy; identifying individuals suitably qualified to become Board members and assessing the independence of independent non-executive Directors; and making recommendations to the Board on the appointment or re-appointment of Directors and succession planning for Directors. The Nomination Committee will also give consideration to the Board Diversity Policy (as defined above) when identifying suitable qualified candidates to become members of the Board, and the Board will review the Board Diversity Policy, so as to develop and review measurable objectives for implementing the Board Diversity Policy and to monitor the progress on achieving these objectives. Its written terms of reference are available on the websites of the Stock Exchange and the Company.

During the year ended 31 December 2013, the Nomination Committee held one meeting. At the meeting, the committee reviewed and assessed the independence of all the independent non-executive Directors, composition and structure of the Board and the retirement and re-election of Directors in the annual general meeting of the Company.

Details of the Directors' attendance (either in person or by phone) at the Board meetings, Audit Committee meetings, Remuneration Committee meeting and Nomination Committee meeting held during the year ended 31 December 2013 are set out in the table below:

	No. of meetings attended/entitled to attend			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Mr. Zhang Kaiyong	4/9	–	–	–
Dr. William Rakotoarisaina	1/2	–	–	–
Mr. Ren Yansheng	9/9	–	–	–
Mr. Hui Bo	9/9	–	1/1	1/1
Mr. Shen Hao	2/9	–	–	–
Mr. Feng Dawei	3/9	–	–	–
Mr. Yang Jie	2/9	–	–	–
Mr. To Kwan	9/9	–	–	–
Independent Non-executive Directors:				
Mr. Ng Wing Ka	8/9	2/2	–	1/1
Mr. Leung Ting Yuk	9/9	2/2	1/1	–
Mr. Sun Liming	9/9	2/2	1/1	1/1
Dr. Mu Guodong	9/9	–	–	–

CORPORATE GOVERNANCE REPORT

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK$1,911,000, of which HK$1,000,000 was incurred for audit service and HK$911,000 for non-audit services, including the taxation services and professional fees for circulars.

COMPANY SECRETARY

Mr. Law Hing Lam was appointed as the company secretary of the Company with effect from 21 March 2011. He is responsible to support the Board by ensuring good information flow within the Board and that Board procedures and policies are followed. He is also responsible for advising the Board through the chairman and/or the Chief Executive Officer on corporate governance matters and also facilitating induction and professional development of Directors. In addition, Mr. Law is directly responsible for the Group's compliance with the continuing obligations of the Listing Rules, Codes on Takeovers and Mergers and Share Repurchases, Companies Ordinance, Securities and Futures Ordinance and other applicable laws, rules and regulations.

Mr. Law is also the financial controller and the authorized representative of the Company. The biographical details of Mr. Law is set out in the section "Directors and Senior Management's Biographies" on page 17 of this annual report.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended have been reviewed by the Audit Committee and audited by the external auditors, HLB Hodgson Impey Cheng Limited. The Directors acknowledge their responsibilities for preparing the consolidated financial statements of the Group which give a true and fair view. The Directors' responsibilities for the accounts are set out in the Independent Auditors' Report on page 35.

SHAREHOLDERS' RIGHTS

(1) Procedures for shareholders to convene a Special General Meeting

The Board may whenever it thinks fit call special general meetings, and members holding at the date of deposit of the requisition not less than one-tenth of the paid up capital of the Company carrying the right of voting at general meetings of the Company shall at all times have the right, by written requisition to the Board or the company secretary of the Company, to require a special general meeting ("SGM") to be called by the Board for the transaction of any business specified in such requisition.

Such meeting shall be held within two (2) months after the deposit of such requisition. If within twenty-one (21) days of such deposit the Board fails to proceed to convene such meeting the requisitionists themselves may do so in accordance with the provisions of Section 74(3) of the Companies Act 1981 of Bermuda.

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS *(Continued)*

(2) Procedures by which enquiries may be put to the Board and sufficient contact details to enable these enquiries to be properly directed

Shareholders may send their enquires and concerns to the Board in writing through the company secretary of the Company whose contact details are as follows:

Yanchang Petroleum International Limited
Suite 1512, 15/F., One Pacific Place,
88 Queensway, Hong Kong
Telephone: 3528 5228
Fax: 3528 5238
Email: info@yanchangpetroleum.com

The company secretary will forward the enquires or concerns to the Chief Executive Officer or the chairman of the Board committees or senior management as appropriate within their area of responsibilities for answering and/or further handling.

Shareholders may also make enquiries with the Board at the general meetings of the Company.

(3) Procedures for putting forward proposals at shareholders' meetings

Shareholders are requested to follow the provisions of the Company's Bye-laws for including a resolution at a SGM. The requirements and procedures are set out above. Pursuant to Bye-law 88 of the Company's Bye-laws, no person, other than a director retiring at a meeting, shall, unless recommended by the directors for election, be eligible for appointment as a director at any general meeting unless there shall have been lodged at the head office or at the principal place of business in Hong Kong of the Company notice in writing signed by a shareholder (other than the person to be proposed) duly qualified to attend and vote at the meeting for which such notice is given of his intention to propose that person for election as a director and also notice in writing signed by that person of his willingness to be elected as a director. The minimum length of the period for lodgment of the said notices shall be at least seven days and that (if the notices are submitted after the despatch of the notice of the general meeting appointed for such election), the period for lodgment of the said notice(s) shall commence on the day after the dispatch of the notice of the general meeting for such election of director(s) and end no later than seven days prior to the date of such general meeting. The written notice must state that person's biographical details as required by Rule 13.51(2) of the Listing Rules. The procedures for shareholders of the Company to propose a person for election as director is posted on the Company's website.

CONSTITUTIONAL DOCUMENTS

There are no changes in the Company's constitutional documents during the year.

CORPORATE GOVERNANCE REPORT

INTERNAL CONTROL

The Board has overall responsibilities for maintaining sound and effective internal control system of the Group through the Audit Committee. The Board has delegated to the management the implementation of such systems of internal control as well as the review of relevant financial, operational and compliance controls and risk management procedures.

The Board has established the on-going process for safeguard of assets. The key control procedures of the Group's internal control system are as follows:

– Segregation of duties and functions of the respective operational departments of the Group

– Monitoring the strategic plan and performance

– Designing an effective accounting and information system

The Board has conducted an annual review of the effectiveness of its internal control system covering all material controls, including financial, operational and compliance as well as risk management. Based on the assessments, the Board considered that the internal control system and procedures of the Group were effective and adequate.

COMMUNICATION WITH SHAREHOLDERS

During the year under review, the Group has proactively enhanced its corporate transparency and communications with its shareholders and the investment community through its annual and interim reports. Constantly being updated in a timely manner, the Company maintains its website at www.yanchangpetroleum.com on which press releases, announcements, financial and other information relating to the Company and its business are disclosed. The annual report together with the annual general meeting circular which contains the notice of the annual general meeting are distributed to all the shareholders at least 20 clear business days before the meeting.

The annual general meeting provides a useful forum for shareholders to exchange views with the Board. The Chairman of the Board as well as the respective chairman of the Audit Committee, Nomination Committee and Remuneration Committee are pleased to answer shareholders' questions.

Separate resolutions are proposed at general meetings on each substantially separate issue.

Pursuant to Rule 13.39(4) of the Listing Rules, any vote of shareholders at a general meeting must be taken by poll except where the chairman, in good faith, decides to allow a resolution which relates purely to a procedural or administrative matter to be voted on by a show of hands.

Shareholders' Communication Policy

The Company adopted a Shareholders' Communication Policy in March 2012 which aims at enhancing the corporate communication effectively between the shareholders, and the Board and senior management of the Company through various official channels so that the shareholders can access the Company's public information equally and effectively in a timely manner.

INDEPENDENT AUDITORS' REPORT

HLB 國衛會計師事務所有限公司
Hodgson Impey Cheng Limited

31/F, Gloucester Tower
The Landmark
11 Pedder Street
Central
Hong Kong

TO THE SHAREHOLDERS OF
YANCHANG PETROLEUM INTERNATIONAL LIMITED
(Incorporated in Bermuda with limited liability)

We have audited the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 37 to 111, which comprise the consolidated and the company statements of financial position as at 31 December 2013, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of consolidated financial statements that give a true and fair view in accordance with Hong Kong Financial Reporting Standards issued by the Hong Kong Institute of Certified Public Accountants and the disclosure requirements of the Hong Kong Companies Ordinance, and for such internal control as the directors determine is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

AUDITORS' RESPONSIBILITY

Our responsibility is to express an opinion on these consolidated financial statements based on our audit and to report our opinion solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report. We conducted our audit in accordance with Hong Kong Standards on Auditing issued by the Hong Kong Institute of Certified Public Accountants. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgement, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation of the consolidated financial statements that give a true and fair view in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by the directors, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the state of affairs of the Company and of the Group as at 31 December 2013, and of the Group's profit and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in accordance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Hon Koon Fai, Alex
Practising Certificate Number: P05029

Hong Kong, 28 March 2014

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
Turnover	8	19,354,899	7,572,880
Cost of sales		(19,202,100)	(7,530,644)
Gross profit		152,799	42,236
Other revenue	8	16,365	4,790
Other gains and losses	9	1,226	(52,003)
Selling and distribution costs		(2,171)	(2,787)
Administrative expenses		(68,103)	(51,511)
Equity-settled share option expenses		–	(183)
Profit/(loss) from operating activities	10	100,116	(59,458)
Finance costs	13	(22,008)	(16,010)
Profit/(loss) before taxation		78,108	(75,468)
Taxation	14	(25,274)	(1,785)
Profit/(loss) for the year		52,834	(77,253)
Other comprehensive income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		9,630	1,562
Items that will not be reclassified to profit or loss:			
Gain arising from revaluation of property, plant and equipment before reclassification to investment properties		–	370
Other comprehensive income for the year, net of tax		9,630	1,932
Total comprehensive income/(loss) for the year, net of tax		62,464	(75,321)
Profit/(loss) attributable to:			
Owners of the Company		30,920	(77,656)
Non-controlling interests		21,914	403
		52,834	(77,253)
Total comprehensive income/(loss) attributable to:			
Owners of the Company		37,667	(76,840)
Non-controlling interests		24,797	1,519
		62,464	(75,321)
Earnings/(loss) per share attributable to owners of the Company	17		
Basic, HK cents		0.38	(1.13)
Diluted, HK cents		0.38	(1.13)

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	171,102	142,463
Prepaid lease payments	19	20,962	20,949
Investment properties	20	29,099	34,697
Intangible assets	21	293,120	285,334
Exploration and evaluation assets	22	8,584,612	8,572,971
Available-for-sale investment	23	196,072	196,072
Goodwill	24	51,418	51,418
		9,346,385	9,303,904
Current assets			
Inventories	27	28,106	76,299
Prepayments, deposits and other receivables	28	130,790	265,178
Cash and bank balances	29	848,460	634,146
		1,007,356	975,623
Total assets		10,353,741	10,279,527
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	30	162,911	162,911
Reserves	31	9,483,765	9,444,557
Equity attributable to owners of the Company		9,646,676	9,607,468
Non-controlling interests		139,674	95,256
Total equity		9,786,350	9,702,724

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	32	153,197	270,788
Tax payable		8,634	8,314
Borrowings	33	320,000	212,820
		481,831	491,922
Non-current liability			
Deferred taxation	34	85,560	84,881
Total liabilities		567,391	576,803
Total equity and liabilities		10,353,741	10,279,527
Net current assets		525,525	483,701
Total assets less current liabilities		9,871,910	9,787,605

Approved by the Board on 28 March 2014 and signed on its behalf by:

Mr. Zhang Kaiyong
Chairman

Mr. Ren Yansheng
Chief Executive Officer

The accompanying notes form an integral part of these consolidated financial statements.

STATEMENT OF FINANCIAL POSITION

At 31 December 2013

	Notes	2013 HK$'000	2012 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	*25*	**6,339,900**	6,294,555
Property, plant and equipment	*18*	**98**	154
		6,339,998	6,294,709
Current assets			
Prepayment and other receivables		**1,400**	1,322
Cash and bank balances		**442,625**	497,953
		444,025	499,275
Total assets		**6,784,023**	6,793,984
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	*30*	**162,911**	162,911
Reserves	*31*	**6,299,610**	6,316,636
Total equity		**6,462,521**	6,479,547
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	*25*	**311,094**	311,099
Other payables and accruals		**10,408**	2,338
Borrowings	*33*	**–**	1,000
		321,502	314,437
Total liabilities		**321,502**	314,437
Total equity and liabilities		**6,784,023**	6,793,984
Net current assets		**122,523**	184,838
Total assets less current liabilities		**6,462,521**	6,479,547

Approved by the Board on 28 March 2014 and signed on its behalf by:

Mr. Zhang Kaiyong
Chairman

Mr. Ren Yansheng
Chief Executive Officer

The accompanying notes form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

	Attributable to owners of the Company												
		Reserves											
	Share capital HK$'000	Share premium HK$'000 *(Note i)*	Contributed surplus HK$'000 *(Note ii)*	Exchange reserve HK$'000	Revaluation reserve HK$'000 *(Note iii)*	Reserve on acquisition of additional interests in a subsidiary HK$'000	Share option reserve HK$'000 *(Note iv)*	Statutory reserve HK$'000 *(Note v)*	Other reserve HK$'000 *(Note vi)*	Retained profits/ (Accumulated losses) HK$'000	Subtotal HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2012	130,911	5,859,769	3,156	9,896	385,000	2,285,265	159,063	–	–	39,565	8,741,714	93,737	8,966,362
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	(77,656)	(77,656)	403	(77,253)
Other comprehensive income for the year	–	–	–	557	259	–	–	–	–	–	816	1,116	1,932
Total comprehensive (loss)/income for the year	–	–	–	557	259	–	–	–	–	(77,656)	(76,840)	1,519	(75,321)
Equity-settled share-option expenses	–	–	–	–	–	–	183	–	–	–	183	–	183
Issue of ordinary shares	26,000	637,000	–	–	–	–	–	–	–	–	637,000	–	663,000
Consideration shares	6,000	142,500	–	–	–	–	–	–	–	–	142,500	–	148,500
Transfer of reserve	–	–	–	–	–	–	–	836	–	(836)	–	–	–
At 31 December 2012 and 1 January 2013	162,911	6,639,269	3,156	10,453	385,259	2,285,265	159,246	836	–	(38,927)	9,444,557	95,256	9,702,724
Profit for the year	–	–	–	–	–	–	–	–	–	30,920	30,920	21,914	52,834
Other comprehensive income for the year	–	–	–	6,747	–	–	–	–	–	–	6,747	2,883	9,630
Total comprehensive income for the year	–	–	–	6,747	–	–	–	–	–	30,920	37,667	24,797	62,464
Expiry of share options	–	–	–	–	–	–	(158,501)	–	–	158,501	–	–	–
Forfeited share options	–	–	–	–	–	–	(745)	–	–	745	–	–	–
Incorporation of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	18,961	18,961
Net increase in other reserve	–	–	–	–	–	–	–	–	1,541	–	1,541	660	2,201
Transfer of reserve	–	–	–	–	–	–	–	7,690	–	(7,690)	–	–	–
At 31 December 2013	**162,911**	**6,639,269**	**3,156**	**17,200**	**385,259**	**2,285,265**	**–**	**8,526**	**1,541**	**143,549**	**9,483,765**	**139,674**	**9,786,350**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2013

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$4,876,210,000 (2012: HK$4,876,210,000); and (ii) special reserve of HK$1,763,059,000 (2012: HK$1,763,059,000). The special reserve represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries or additional interests on available-for-sale investment in prior years.

(ii) The contribution surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to a reorganisation scheme ("the Group Reorganisation") to rationalise the structure of the Group in preparation for the public listing of the Company's shares on The Stock Exchange of Hong Kong Limited set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefor.

(iii) The revaluation reserve includes the fair value adjustment amounting to HK$385,000,000 relating to previous acquisition of 7% equity interests of Madagascar Energy International Limited. The Group has acquired the remaining 93% equity interest during the year ended 31 March 2008.

Amount of HK$259,000 represent the fair value gain of property, plant and equipment before reclassification to investment properties during the year ended 31 December 2012.

(iv) For the nine months ended 31 December 2011, the Company granted share options to Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), the substantial shareholder of the Company, to subscribe for 1,000,000,000 new shares at the exercise price of HK$0.716 per option share pursuant to the specific mandate. The share option may be exercised in whole or in part within 24 months from 8 June 2011. The share options were expired during the year ended 31 December 2013 and the corresponding share option reserve amounting to approximately HK$144,100,000 had been released directly to retained profits.

On 1 November 2011, the Company granted share options to Golden Soar Investments Limited to subscribe for 210,000,000 new shares at the exercise price of HK$0.73 per option share pursuant to the specific mandate. The share option may be exercised in whole or in part within 24 months from 1 November 2011. The share options were expired during the year ended 31 December 2013 and the corresponding share option reserve amounting to approximately HK$11,625,000 had been released directly to retained profits.

All the share options granted to employees and consultants under the Share Option Scheme as described in Note 30 were being expired or forfeited during the year ended 31 December 2013 and the corresponding share option reserve amounting to approximately HK$3,521,000 had been released directly to retained profits.

(v) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of its net profit after taxation for the statutory surplus reserve fund (except when the reserve balance has reached 50% of the subsidiaries' paid-up capital). The reserve fund can only be used, upon approval by the board of directors and by the relevant authority, to offset accumulated losses or increase capital.

(vi) According to relevant PRC regulations, the Group is required to transfer certain amount to other reserve for the safety production fund based on the turnover of trading and distribution of oil related products. As at 31 December 2013, the Group contributed HK$1,541,000 (2012: N/A) to other reserve for the safety production fund.

The accompanying notes form an integral part of these consolidated financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Profit/(loss) before taxation	78,108	(75,468)
Adjustments for:		
Interest income	(13,794)	(2,579)
Depreciation of property, plant and equipment	5,835	7,025
Amortisation of prepaid lease payments	535	522
Equity-settled share option expenses	–	183
Fair value change on investment properties	6,331	2,879
Loss on disposal of property, plant and equipment	198	983
Impairment loss of intangible assets	–	34,450
Loss on sale of equity interest on available-for-sale investment	–	26,378
Investment property written off	–	3,105
Gain on derecognition of a subsidiary	–	(14,809)
Net increase in other reserve	2,201	–
Finance costs	22,008	16,010
Operating profit/(loss) before working capital changes	101,422	(1,321)
Decrease in trade receivables	–	46
Decrease in inventories	50,185	30,928
Decrease/(increase) in prepayments, deposits and other receivables	140,878	(284,121)
Decrease in pledged deposits	–	49,860
(Decrease)/increase in trade and other payables	(117,363)	146,463
Cash generated from/(used in) operations	175,122	(58,145)
Interest received	13,794	2,579
Tax paid	(26,784)	–
Net cash generated from/(used in) operating activities	162,132	(55,566)
Cash flows from investing activities		
Purchases of property, plant and equipment	(30,769)	(6,482)
Proceeds from disposal of property, plant and equipment	13	360
Net cash used in investing activities	(30,756)	(6,122)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2013

	2013 HK$'000	2012 HK$'000
Cash flows from financing activities		
Proceeds from borrowings	383,310	223,905
Interest paid	(22,008)	(16,010)
Repayment of bank borrowings	(282,094)	(142,396)
Repayment of promissory note	–	(84,654)
Proceeds from issue of shares	–	663,000
Capital injection by non-controlling shareholders	18,961	–
Net cash generated from financing activities	98,169	643,845
Net increase in cash and cash equivalents	229,545	582,157
Cash and cash equivalents at beginning of year	634,146	29,485
Effect of exchange rate changes on the balance of cash held in foreign currencies	(15,231)	22,504
Cash and cash equivalents at end of year	848,460	634,146
Analysis of balances of cash and cash equivalents		
Cash and bank balances	848,460	634,146

The accompanying notes form an integral part of these consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

1. CORPORATE INFORMATION

Yanchang Petroleum International Limited (the "Company") was incorporated in Bermuda on 5 January 2001 as an exempted company with limited liability under the Bermuda Companies Act and its shares are listed on The Stock Exchange of Hong Kong Limited (the "Stock Exchange"). The addresses of the registered office and principal place of business of the Company are disclosed in the corporate information section of the annual report.

The Company acts as an investment holding company while its subsidiaries are engaged in supply and procurement operation of oil related products as well as oil and gas exploration, exploitation and operation.

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

The directors of the Company (the "Directors") consider the ultimate holding company of the Company to be Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), a state-owned corporation registered in the People's Republic of China (the "PRC") with limited liability.

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs")

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (the "new HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial period beginning 1 January 2013, except for the amendments to HKAS 36 which are mandatory for annual periods beginning on or after 1 January 2014. A summary of the new HKFRSs are set out as below:

Amendments to HKFRSs	Annual Improvements 2009-2011 Cycle
HKFRS 1 (Amendments)	Government Loans
HKFRS 7 (Amendments)	Disclosure – Offsetting Financial Assets and Financial Liabilities
HKFRS 10	Consolidated Financial Statements
HKFRS 11	Joint Arrangements
HKFRS 12	Disclosure of Interests in Other Entities
HKFRS 10, HKFRS 11 & HKFRS 12 (Amendments)	Consolidated Financial Statements, Joint Arrangements and Disclosure of Interests in Other Entities – Transition Guidance
HKFRS 13	Fair Value Measurement
HKAS 1 (Amendments)	Presentation of Items of Other Comprehensive Income
HKAS 19 (as revised in 2011)	Employee Benefits
HKAS 27 (as revised in 2011)	Separate Financial Statements
HKAS 28 (as revised in 2011)	Investments in Associates and Joint Ventures
HKAS 36 (Amendments)	Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets
HK(IFRIC)–Int 20	Stripping Costs in the Production Phase of a Surface Mine

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 1 — Presentation of Items of Other Comprehensive Income

The Group has applied the amendments to HKAS 1 *Presentation of Items of Other Comprehensive Income*. The amendments introduce new terminology for the statement of comprehensive income and income statement. Under the amendments to HKAS 1, the statement of comprehensive income is renamed as the statement of profit or loss and other comprehensive income and the income statement is renamed as the statement of profit or loss. The amendments to HKAS 1 retain the option to present profit or loss and other comprehensive income in either a single statement or in two separate but consecutive statements. However, the amendments to HKAS 1 require additional disclosures to be made in the other comprehensive income section such that items of other comprehensive income are grouped into two categories: (a) items that will not be reclassified subsequently to profit or loss and (b) items that may be reclassified subsequently to profit or loss when specific conditions are met. Income tax on items of other comprehensive income is required to be allocated on the same basis – the amendments do not change the option to present items of other comprehensive income either before tax or net of tax. The amendments have been applied retrospectively, and hence the presentation of items of other comprehensive income has been modified to reflect the changes. Other than the above mentioned presentation changes, the application of the amendments to HKAS 1 does not result in any impact on profit or loss, other comprehensive income and total comprehensive income.

Amendments to HKAS 36 — Impairment of Assets: Recoverable Amount Disclosure for Non-Financial Assets

The amendments to HKAS 36 remove the requirement to disclose the recoverable amount of a cash-generating unit (CGU) to which goodwill or other intangible assets with indefinite useful lives had been allocated when there has been no impairment or reversal of impairment of the related CGU. Furthermore, the amendments introduce additional disclosure requirements regarding the fair value hierarchy, key assumptions and valuation techniques used when the recoverable amount of an asset or CGU was determined based on its fair value less costs of disposal.

HKFRS 13 — Fair Value Measurement

The Group has applied HKFRS 13 for the first time in the current year. HKFRS 13 establishes a single source of guidance for fair value measurements and disclosures about fair value measurements. The scope of HKFRS 13 is broad; the fair value measurement requirements of HKFRS 13 apply to both financial instrument items and non-financial instrument items for which other HKFRSs require or permit fair value measurements and disclosures about fair value measurements, except for share-based payment transactions that are within the scope of HKFRS 2 Share-based Payment, leasing transactions that are within the scope of HKAS 17 Leases, and measurements that have some similarities to fair value but are not fair value (e.g. net realisable value for the purposes of measuring inventories or value in use for impairment assessment purposes).

HKFRS 13 defines the fair value of an asset as the price that would be received to sell an asset (or paid to transfer a liability, in the case of determining the fair value of a liability) in an orderly transaction in the principal (or most advantageous) market at the measurement date under current market conditions. Fair value under HKFRS 13 is an exit price regardless of whether that price is directly observable or estimated using another valuation technique. Also, HKFRS 13 includes extensive disclosure requirements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 13 — Fair Value Measurement *(Continued)*

HKFRS 13 requires prospective application from 1 January 2013. In addition, specific transitional provisions were given to entities such that they need not apply the disclosure requirements set out in the Standard in comparative information provided for periods before the initial application of the Standard. In accordance with these transitional provisions, the Group has not made any new disclosures required by HKFRS 13 for the 2012 comparative period. Other than the additional disclosures, the application of HKFRS 13 has not had any material impact on the amounts recognised in the consolidated financial statements.

Except for the above, the application of the above new HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods have been prepared and presented. Accordingly, no prior period adjustment has been required.

The Group has not early applied the following new HKFRSs that have been issued but are not yet effective.

Amendments to HKFRSs	Annual Improvements 2010–2012 Cycle[5]
Amendments to HKFRSs	Annual Improvements 2011–2013 Cycle[2]
HKFRS 9 and HKFRS 7 (Amendments)	Mandatory Effective Date of HKFRS 9 and Transition Disclosures[4]
HKFRS 9	Financial Instruments[4]
HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities[1]
HKFRS 14	Regulatory Deferral Accounts[3]
HKAS 19 (as revised in 2011)	Employee Benefits[2]
HKAS 32 (Amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities[1]
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting[1]
HK(IFRIC)-Int 21	Levies[1]

[1] Effective for annual periods beginning on or after 1 January 2014
[2] Effective for annual periods beginning on or after 1 July 2014
[3] Effective for annual periods beginning on or after 1 January 2016
[4] No mandatory effective date yet determined but is available for adoption
[5] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

HKFRS 9 — Financial Instruments

HKFRS 9 issued in 2009 introduces new requirements for the classification and measurement of financial assets. HKFRS 9 amended in 2010 includes the requirements for the classification and measurement of financial liabilities and for derecognition.

Key requirements of HKFRS 9 are described as follows:

- All recognised financial assets that are within the scope of HKAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent reporting periods. All other debt investments and equity investments are measured at their fair values at the end of subsequent accounting periods. In addition, under HKFRS 9, entities may make an irrevocable election to present subsequent changes in the fair value of an equity investment (that is not held for trading) in other comprehensive income, with only dividend income generally recognised in profit or loss.

- With regard to the measurement of financial liabilities designated as at fair value through profit or loss, HKFRS 9 requires that the amount of change in the fair value of the financial liability that is attributable to changes in the credit risk of that liability is presented in other comprehensive income, unless the recognition of the effects of changes in the liability's credit risk in other comprehensive income would create or enlarge an accounting mismatch in profit or loss. Changes in fair value of financial liabilities attributable to changes in the financial liabilities' credit risk are not subsequently reclassified to profit or loss. Previously, under HKAS 39, the entire amount of the change in the fair value of the financial liability designated as fair value through profit or loss was presented in profit or loss.

The date when entities would be required to apply HKFRS 9 was previously stated at 1 January 2015. This mandatory effective date has been removed to provide sufficient time for preparers of financial statements to make the transition to the new requirements, which will now become effective from a later date yet to be announced.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 (2011) – Investment Entities

The amendments to HKFRS 10 define an investment entity and require a reporting entity that meets the definition of an investment entity not to consolidate its subsidiaries but instead to measure its subsidiaries at fair value through profit or loss in its financial statements.

To qualify as an investment entity, a reporting entity is required to:

- obtain funds from one or more investors for the purpose of providing them with professional investment management services;

- commit to its investor(s) that its business purpose is to invest funds solely for returns from capital appreciation, investment income, or both; and

- measure and evaluate performance of substantially all of its investments on a fair value basis.

Consequential amendments have been made to HKFRS 12 and HKAS 27 to introduce new disclosure requirements for investment entities.

The directors of the Company do not anticipate that the investment entities amendments will have any effect on the Group's consolidated financial statements as the Company is not an investment entity.

Amendments to HKAS 32 – Offsetting Financial Assets and Financial Liabilities

The amendments to HKAS 32 clarify existing application issues relating to the offset of financial assets and financial liabilities requirements. Specifically, the amendments clarify the meaning of "currently has a legally enforceable right of set-off" and "simultaneous realisation and settlement".

The directors of the Company do not anticipate that the application of these amendments to HKAS 32 will have a significant impact on the Group's consolidated financial statements as the Group does not have any financial assets and financial liabilities that qualify for offset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

2. APPLICATION OF NEW AND REVISED HONG KONG FINANCIAL REPORTING STANDARDS ("HKFRSs") *(Continued)*

Amendments to HKAS 39 – Novation of Derivatives and Continuation of Hedge Accounting

The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative hedging instrument arising from the novation should be included in the assessment of hedge effectiveness.

The directors of the Company do not anticipate that the application of these amendments to HKAS 39 will have any effect on the Group's consolidated financial statements as the Group does not have any derivatives that are subject to novation.

HK (IFRIC) – Int 21 Levies

HK (IFRIC) – Int 21 Levies addresses the issue of when to recognise a liability to pay a levy. The interpretation defines a levy, and specifies that the obligating event that gives rise to the liability is the activity that triggers the payment of the levy, as identified by legislation. The interpretation provides guidance on how different levy arrangements should be accounted for, in particular, it clarifies that neither economic compulsion nor the going concern basis of financial statements preparation implies that an entity has a present obligation to pay a levy that will be triggered by operating in a future period.

The directors of the Company anticipate that the application of HK (IFRIC) – Int 21 will have no effect on the Group's consolidated financial statements as the Group does not have any levy arrangements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements have been prepared in accordance with HKFRSs which is a collective term that includes all applicable HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations issued by the HKICPA, and accounting principles generally accepted in Hong Kong. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange and by the disclosure requirements of the Hong Kong Companies Ordinance.

Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain financial instruments which are measured at fair values, as explained in the accounting policies set out below.

Historical cost is generally based on the fair value of the consideration given in exchange for goods and services.

Fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, regardless of whether that price is directly observable or estimated using another valuation technique. In estimating the fair value of an asset or a liability, the Group takes into account the characteristics of the asset or liability if market participants would take those characteristics into account when pricing the asset or liability at the measurement date. Fair value for measurement and/or disclosure purposes in these consolidated financial statements is determined on such a basis, except for share-based payment transactions that are within the scope of HKFRS 2, leasing transactions that are within the scope of HKAS 17, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 or value in use in HKAS 36.

In addition, for financial reporting purposes, fair value measurements are categorised into Level 1, 2 or 3 based on the degree to which the inputs to the fair value measurements are observable and the significance of the inputs to the fair value measurement in its entirety, which are described as follows:

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;

- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and

- Level 3 inputs are unobservable inputs for the asset or liability.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation

The consolidated financial statements incorporate the financial statements of the Company and entities (including structured entities) controlled by the Company and its subsidiaries. Control is achieved when the Company:

- has power over the investee;
- is exposed, or has rights, to variable returns from its involvement with the investee; and
- has the ability to use its power to affect its returns.

The Group reassesses whether or not it controls an investee if facts and circumstances indicate that there are changes to one or more of the three elements of control listed above.

When the Group has less than a majority of the voting rights of an investee, it has power over the investee when the voting rights are sufficient to give it the practical ability to direct the relevant activities of the investee unilaterally. The Group considers all relevant facts and circumstances in assessing whether or not the Group's voting rights in an investee are sufficient to give it power, including:

- the size of the Group's holding of voting rights relative to the size and dispersion of holdings of the other vote holders;
- potential voting rights held by the Group, other vote holders or other parties;
- rights arising from other contractual arrangements; and
- any additional facts and circumstances that indicate that the Group has, or does not have, the current ability to direct the relevant activities at the time that decisions need to be made, including voting patterns at previous shareholders' meetings.

Consolidation of a subsidiary begins when the Group obtains control over the subsidiary and ceases when the Group loses control of the subsidiary. Specifically, income and expenses of a subsidiary acquired or disposed of during the year are included in the consolidated statement of profit or loss and other comprehensive income from the date the Group gains control until the date when the Group ceases to control the subsidiary.

Profit or loss and each item of other comprehensive income are attributed to the owners of the Company and to the non-controlling interests. Total comprehensive income of subsidiaries is attributed to the owners of the Company and to the non-controlling interests even if this results in the non-controlling interests having a deficit balance.

When necessary, adjustments are made to the financial statements of subsidiaries to bring their accounting policies into line with the Group's accounting policies.

All intra-group assets and liabilities, equity, income, expenses and cash flows relating to transactions between members of the Group are eliminated in full on consolidation.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(a) Basis of consolidation *(Continued)*

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's interests and the non-controlling interests are adjusted to reflect the changes in their relative interests in the subsidiaries. Any difference between the amount by which the non-controlling interests are adjusted and the fair value of the consideration paid or received is recognised directly in equity and attributed to owners of the Company.

When the Group loses control of a subsidiary, a gain or loss is recognised in profit or loss and is calculated as the difference between (i) the aggregate of the fair value of the consideration received and the fair value of any retained interest and (ii) the previous carrying amount of the assets (including goodwill), and liabilities of the subsidiary and any non-controlling interests. All amounts previously recognised in other comprehensive income in relation to that subsidiary are accounted for as if the Group had directly disposed of the related assets or liabilities of the subsidiary (i.e. reclassified to profit or loss or transferred to another category of equity as specified/ permitted by applicable HKFRSs). The fair value of any investment retained in the former subsidiary at the date when control is lost is regarded as the fair value on initial recognition for subsequent accounting under HKAS 39 Financial Instruments: Recognition and Measurement or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

(b) Business combination

Acquisitions of businesses are accounted for using the acquisition method. The consideration transferred in a business combination is measured at fair value, which is calculated as the sum of the acquisition-date fair values of the assets transferred by the Group, liabilities incurred by the Group to the former owners of the acquiree and the equity interests issued by the Group in exchange for control of the acquiree. Acquisition related costs are generally recognised in profit or loss as incurred.

At the acquisition date, the identifiable assets acquired and the liabilities assumed are recognised at their fair value at the acquisition date, except that:

(i) deferred tax assets or liabilities and liabilities or assets related to employee benefit arrangements are recognised and measured in accordance with HKAS 12 *Income Taxes* and HKAS 19 *Employee Benefits* respectively;

(ii) liabilities or equity instruments related to share-based payment transactions of the acquiree or the replacement of an acquiree's share-based payment transactions with share-based payment transactions of the Group are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date; and

(iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(b) Business combination *(Continued)*

Goodwill is measured as the excess of the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree, and the fair value of the acquirer's previously held equity interest in the acquiree (if any) over the net of the acquisition-date amounts of the identifiable assets acquired and the liabilities assumed. If, after assessment, the net of the acquisition-date amounts of the identifiable assets acquired and liabilities assumed exceeds the sum of the consideration transferred, the amount of any non-controlling interests in the acquiree and the fair value of the acquirer's previously held interest in the acquiree (if any), the excess is recognised immediately in profit or loss as a bargain purchase gain.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the entity's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognised amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction-by-transaction basis. Other types of non-controlling interests are measured at their fair value or another measurement basis required by another standard.

When the consideration transferred by the Group in a business combination includes assets or liabilities resulting from a contingent consideration arrangement, the contingent consideration is measured at its acquisition date fair value and considered as part of the consideration transferred in a business combination. Changes in the fair value of the contingent consideration that qualify as measurement period adjustments are adjusted retrospectively, with the corresponding adjustments being made against goodwill. Measurement period adjustments are adjustments that arise from additional information obtained during the "measurement period" (which cannot exceed one year from the acquisition date) about facts and circumstances that existed at the acquisition date.

The subsequent accounting for changes in the fair value of the contingent consideration that do not qualify as measurement period adjustments depends on how the contingent consideration is classified. Contingent consideration that is classified as equity is not remeasured at subsequent reporting dates and its subsequent settlement is accounted for within equity. Contingent consideration that is classified as an asset or a liability is remeasured at subsequent reporting dates in accordance with HKAS 39, or HKAS 37 Provisions, Contingent Liabilities and Contingent Assets, as appropriate, with the corresponding gain or loss being recognised in profit or loss.

When a business combination is achieved in stages, the Group's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Group obtains control), and the resulting gain or loss, if any, is recognised in profit or loss. Amounts arising from interests in the acquiree prior to the acquisition date that have previously been recognised in other comprehensive income are reclassified to profit or loss where such treatment would be appropriate if that interest were disposed of.

If the initial accounting for a business combination is incomplete by the end of the reporting period in which the combination occurs, the Group reports provisional amounts for the items for which the accounting is incomplete. Those provisional amounts are adjusted during the measurement period (see above), or additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(c) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating units (or groups of cash-generating units) that is expected to benefit from the synergies of the combination.

A cash-generating unit to which goodwill has been allocated is tested for impairment annually, or more frequently when there is indication that the unit may be impaired. If the recoverable amount of the cash-generating unit is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill allocated to the unit and then to the other assets of the unit on a pro-rata basis based on the carrying amount of each asset in the unit. Any impairment loss for goodwill is recognised directly in profit or loss. An impairment loss recognised for goodwill is not reversed in subsequent periods.

On disposal of the relevant cash-generating unit, the attributable amount of goodwill is included in the determination of profit or loss on disposal.

(d) Impairment of non-financial assets (other than goodwill)

At the end of each reporting period, the Group reviews the carrying amounts of its tangible and intangible assets with finite useful lives to determine whether there is any indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). When it is not possible to estimate the recoverable amount of an individual asset, the Group estimates the recoverable amount of the cash-generating unit to which the asset belongs. When a reasonable and consistent basis of allocation can be identified, corporate assets are also allocated to individual cash generating units, or otherwise they are allocated to the smallest group of cash-generating units for which a reasonable and consistent allocation basis can be identified.

Intangible assets with indefinite useful lives and intangible assets not yet available for use are tested for impairment at least annually, and whenever there is an indication that the asset may be impaired.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset for which the estimates of future cash flows have not been adjusted.

If the recoverable amount of an asset (or a cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or the cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or cash generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognised for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(e) Revenue recognition

Revenue is measured at the fair value of the consideration received or receivable and represents amounts receivable for goods provided in the normal course of business, net of discounts and sales related taxes.

Sale of goods

Revenue from the sale of goods is recognised when the goods are delivered and titles have passed, at which time all the following conditions are satisfied:

- the Group has transferred to the buyer the significant risks and rewards of ownership of the goods;
- the Group retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits associated with the transaction will flow to the Group; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

Interest income

Interest income from a financial asset is recognised when it is probable that the economic benefits will flow to the Group and the amount of income can be measured reliably. Interest income is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Rental income

Rental income under operating lease is recognised on a straight line basis over the relevant lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and impairment losses. Expenditure incurred after items of property, plant and equipment have been put into operation, such as repairs and maintenance, is normally charged to profit or loss in the period in which it is incurred.

Depreciation is provided on the straight line method so as to write down the cost of property, plant and equipment to their realisable value over their anticipated useful lives at the following annual rates:

Furniture, fixtures and equipment	:	20%–30%
Plant and machinery	:	20%
Motor vehicles	:	20%–30%
Buildings	:	over the shorter of the term of the lease, or 50 years

Where parts of an item of property, plant and equipment have different useful lives, the cost of that item is allocated on a reasonable basis among the parts and each part is depreciated separately. Residual values, useful lives and the depreciation method are reviewed and adjusted if appropriate, at least at each financial year end.

Construction in progress includes property, plant and equipment in the course of construction for production or for its own use purposes. Construction in progress is carried at cost less any recognised impairment loss. Construction in progress is classified to the appropriate category of property, plant and equipment when completed and ready for intended use. Depreciation of these assets, on the same basis as other property assets, commences when the assets are ready for their intended use.

If an item of property, plant and equipment becomes an investment property because its use has changed as evidenced by end of owner-occupation, any difference between the carrying amount and the fair value of that item at the date of transfer is recognised in other comprehensive income and accumulated in property revaluation reserve. On the subsequent sale or retirement of the asset, the relevant revaluation reserve will be transferred directly to retained profits.

An item of property, plant and equipment is derecognised upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the item) is included in profit or loss in the year in which the item is derecognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment property is measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at fair value. Gains or losses arising from changes in the fair value of investment properties are included in profit or loss in the period in which they arise.

An investment property is derecognised upon disposal or when the investment property is permanently withdrawn from use and no future economic benefits are expected from its disposals. Any gains or losses arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss in the year in which the item is derecognised.

(h) Exploration and evaluation assets

Exploration and evaluation assets are recognised at cost on initial recognition. Subsequent to initial recognition, exploration and evaluation assets are stated at cost less any accumulated impairment losses. No amortisation is provided on the exploration and evaluation assets.

Exploration and evaluation assets include the expenditures incurred in the search for oil and gas resources as well as the determination of the technical feasibility and commercial viability of extracting those resources.

When the technical feasibility and commercial viability of extracting oil and gas resources become demonstrable, any previously recognised exploration and evaluation assets would be reclassified as intangible assets or property, plant and equipment. After reclassification, amortisation or depreciation will be provided for the respective assets consistent with the relevant accounting policy.

(i) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average costing method. Net realisable value is based on estimated selling price less any estimated costs to be incurred to completion on sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(j) Leasing

Leases are classified as finance leases whenever the terms of the lease transfer substantially all the risks and rewards of ownership to the lessee. All other leases are classified as operating leases.

The Group as lessor

Rental income from operating leases is recognised in profit or loss on a straight-line basis over the term of the relevant lease.

The Group as lessee

Rentals payable under operating leases are charged to profit or loss on a straight-line basis over the term of the relevant lease. Benefits received and receivable as an incentive to enter into an operating lease are recognised as a reduction of rental expense over the lease term on a straight line basis.

Leasehold land

Interest in leasehold land is accounted for as operating leases and amortised over the lease term on a straight-line basis except for those that are classified and accounted for as investment properties under the fair value model.

When a lease includes both land and building elements, the Group assesses the classification of each element as finance or operating lease separately based on the assessment as to whether substantially all the risks and rewards incidental to ownership of each element have been transferred to the Group. Specifically, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease and accounted for as property, plant and equipment, unless it is clear that both elements are operating leases, in which case the entire lease is classified as an operating lease.

To the extent the allocation of the lease payments can be made reliably, interests in leasehold land that is accounted for as an operating lease is presented as “prepaid lease payments” in the consolidated statements of financial position at cost initially and is amortised over the lease term on a straight-line basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(k) Foreign currencies translation

In preparing the financial statements of each individual group entity, transactions in currencies other than the functional currency of that entity (foreign currencies) are recorded in the respective functional currency (i.e. the currency of the primary economic environment in which the entity operates) at the rates of exchanges prevailing on the dates of the transactions. At the end of each reporting period, monetary items denominated in foreign currencies are re-translated at the rates prevailing on the end of the reporting period. Non-monetary items carried at fair value that are denominated in foreign currencies are re-translated at the rates prevailing on the date when the fair value was determined. Non-monetary items that are measured in terms of historical cost in a foreign currency are not re-translated.

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences arising on a monetary item that forms part of the Company's net investment in a foreign operation, in which case, such exchange differences are recognised in equity in the consolidated financial statements. Exchange differences arising on the re-translation of non-monetary items carried at fair value are included in profit or loss for the period except for differences arising on the re-translation of non-monetary items in respect of which gains and losses are recognised directly in equity, in which cases, the exchange differences are also recognised directly in equity.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) at the rate of exchange prevailing at the end of the reporting period, and their income and expenses are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised as a separate component of equity (the translation reserve). Such exchange differences are recognised in profit or loss in the period in which the foreign operation is disposed of.

Goodwill and fair value adjustments on identifiable assets acquired arising on an acquisition of a foreign operation are treated as assets and liabilities of that foreign operation and translated at the rate of exchange prevailing at the end of the reporting period. Exchange differences arising are recognised in the exchange reserve.

(l) Retirement benefits schemes

(i) Salaries, annual bonuses, paid annual leave, leave passage and the cost to the Group of non-monetary benefits are accrued in the period in which the associated services are rendered by employees of the Group. Where payment or settlement is deferred and the effect would be material, these amounts are stated at their present values.

(ii) Payments to Mandatory Provident Fund retirement benefits scheme (the "MPF Scheme") under the Mandatory Provident Fund Schemes Ordinance are made based on a percentage of the employee's basic salaries and are charged to profit or loss as they become payable in accordance with the rules of the MPF Scheme.

(iii) Payments to the state-managed retirement benefit schemes ("PRC Scheme") are charged as expenses when employees have rendered services entitling them to the contributions.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Share option expenses

The Group operates a share option scheme for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations.

For grants of share options that are conditional upon satisfying specified vesting conditions, the fair value of services received is determined by reference to the fair value of share options granted at the grant date and is expensed on a straight-line basis over the vesting period, with a corresponding increase in equity (share options reserve).

At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve.

For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share premium. When share options are forfeited after the vesting date or are still not exercised at the expiry date, the amount previously recognised in share options reserve will be transferred to retained earnings.

(n) Taxation

Income tax expense represents the sum of the tax currently payable and deferred tax.

The tax currently payable is based on taxable profit for the year. Taxable profit differs from profit before tax as reported in the consolidated statement of comprehensive income because of items of income or expense that are taxable or deductible in other years and items that are never taxable or deductible. The Group's liability for current tax is calculated using tax rates that have been enacted or substantively enacted by the end of the reporting period.

Deferred tax is recognised on temporary differences between the carrying amounts of assets and liabilities in the consolidated financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognised for all taxable temporary differences. Deferred tax assets are generally recognised for all deductible temporary differences to the extent that it is probable that taxable profits will be available against which those deductible temporary differences can be utilised. Such deferred tax assets and liabilities are not recognised if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries and associates, and interests in joint ventures, except where the Group is able to control the reversal of the temporary difference and it is probable that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interests are only recognised to the extent that it is probable that there will be sufficient taxable profits against which to utilise the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Taxation *(Continued)*

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realised, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the Group expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

For the purposes of measuring deferred tax liabilities or deferred tax assets for investment properties that are measured using the fair value model, the carrying amounts of such properties are presumed to be recovered entirely through sale, unless the presumption is rebutted. The presumption is rebutted when the investment property is depreciable and is held within a business model whose objective is to consume substantially all of the economic benefits embodied in the investment property over time, rather than through sale.

Current and deferred tax are recognised in profit or loss, except when they relate to items that are recognised in other comprehensive income or directly in equity, in which case, the current and deferred tax are also recognised in other comprehensive income or directly in equity respectively. Where current tax or deferred tax arises from the initial accounting for a business combination, the tax effect is included in the accounting for the business combination.

(o) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are identified and recognised separately from goodwill where they satisfy the definition of an intangible asset and their fair values can be measured reliably. The cost of such intangible assets is their fair value at the acquisition date.

Subsequent to initial recognition, intangible assets with finite useful lives are carried at costs less accumulated amortisation and any accumulated impairment losses. Amortisation for intangible assets with finite useful lives is provided on a straight-line basis over their estimated useful lives. Alternatively, intangible assets with indefinite useful lives are carried at cost less any subsequent accumulated impairment losses.

Intangible assets with indefinite useful lives are tested for impairment annually either individually or at the cash-generating unit level. Such intangible assets are not amortised. The useful life of an intangible asset with an indefinite life is reviewed annually to determine whether the indefinite life assessment continues to be supportable. If not, the change in the useful life assessment from indefinite to finite is accounted for on a prospective basis.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial instruments

Financial assets and financial liabilities are recognised when a group entity becomes a party to the contractual provisions of the instrument.

Financial assets and financial liabilities are initially measured at fair value. Transaction costs that are directly attributable to the acquisition or issue of financial assets and financial liabilities (other than financial assets and financial liabilities at fair value through profit or loss ("FVTPL"), are added to or deducted from the fair value of the financial assets or financial liabilities, as appropriate, on initial recognition. Transaction costs directly attributable to the acquisition of financial assets or financial liabilities at FVTPL are recognised immediately in profit or loss.

Financial assets

The Group's financial assets are classified into available-for-sale financial assets ("AFS financial assets") and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All regular way purchases or sales of financial assets are recognised and derecognised on a trade date basis. Regular way purchases or sales are purchases or sales of financial assets that require delivery of assets within the time frame established by regulation or convention in the marketplace. The accounting policies adopted in respect of each category of financial assets are set out below.

AFS financial assets

AFS financial assets are non-derivatives that are either designated as available-for-sale or are not classified as loans and receivables, held-to-maturity investments or financial assets at FVTPL.

AFS financial assets are measured at fair value at the end of each reporting period. Changes in fair value are recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. When the financial asset is disposed of or is determined to be impaired, the cumulative gain or loss previously accumulated in the investments revaluation reserve is reclassified to profit or loss (see the accounting policy in respect of impairment loss on financial assets below).

Available-for-sale equity investments that do not have a quoted market price in an active market and whose fair value cannot be reliably measured and derivatives that are linked to and must be settled by delivery of such unquoted equity investments are measured at cost less any identified impairment losses at the end of each reporting period (see the accounting policy in respect of impairment loss on financial assets below).

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Loans and receivables (including other receivables and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses (see accounting policy-impairment of financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial instruments *(Continued)*

Financial assets *(Continued)*

Effective interest method

The effective interest method is a method of calculating the amortised cost of a debt instrument and of allocating interest income over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts (including all fees and points paid or received that form an integral part of the effective interest rate, transaction costs and other premiums or discounts) through the expected life of the debt instrument, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognised on an effective interest basis for debt instruments other than those financial assets classified as at FVTPL.

Impairment of financial assets

Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the financial assets have been affected.

Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- breach of contract, such as a default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization; or
- the disappearance of an active market for that financial asset because of financial difficulties.

For certain categories of financial assets, such as trade receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. Objective evidence of impairment for a portfolio of receivables could include the Group's past experience of collecting payments, an increase in the number of delayed payments in the portfolio past the credit period of 30 days, observable changes in national or local economic conditions that correlate with default on receivables.

For financial assets carried at amortised cost, an impairment loss is recognised in profit or loss when there is objective evidence that the asset is impaired, and is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

For financial assets carried at cost, the amount of the impairment loss is measured as the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the current market rate of return for a similar financial asset. Such impairment loss will not be reversed in subsequent periods.

The carrying amount of the financial asset is reduced by the impairment loss directly for all financial assets with the exception of trade receivables, where the carrying amount is reduced through the use of an allowance account. Changes in the carrying amount of the allowance account are recognised in profit or loss. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited to profit or loss.

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognised in other comprehensive income are reclassified to profit or loss in the period.

For financial assets measured at amortised cost, if, in a subsequent period, the amount of impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment losses was recognised, the previously recognised impairment loss is reversed through profit or loss to the extent that the carrying amount of the asset at the date the impairment is reversed does not exceed what the amortised cost would have been had the impairment not been recognised.

In respect of available-for-sale equity investments, impairment losses previously recognised in profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognised in other comprehensive income and accumulated under the heading of investments revaluation reserve. In respect of available-for-sale debt investments, impairment losses are subsequently reversed through profit or loss if an increase in the fair value of the investment can be objectively related to an event occurring after the recognition of the impairment loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(p) Financial instruments *(Continued)*

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified according to the substance of the contractual arrangements entered into and the definitions of a financial liability and an equity instrument.

An equity instrument is any contract that evidences a residual interest in the asset of the Group after deducting all of its liabilities. The Group's financial liabilities are classified into other financial liabilities. The accounting policies adopted in respect of financial liabilities and equity instruments are set out below.

Other financial liabilities

Other financial liabilities including trade and other payables and borrowings are subsequently measured at amortised cost, using the effective interest rate method.

Equity instruments

Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period.

Interest expense is recognised on an effective interest basis other than those financial liabilities designated as at FVTPL, of which the interest expense is included in net gain or losses.

Derecognition

Financial assets are derecognised when the rights to receive cash flows from the assets expire or, the financial assets are transferred and the Group has transferred substantially all the risks and rewards of ownership of the financial assets. On derecognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and the cumulative gain or loss that had been recognised directly in equity is recognised in profit or loss.

Offsetting of financial instruments

Financial assets and financial liabilities are offset and the net amount is reported in the consolidated statement of financial position if, and only if, there is a currently enforceable legal right to offset the recognised amounts and there is an intention to settle on a net basis, or to realise the assets and settle the liabilities simultaneously.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Jointly controlled operation

When a group entity undertakes its activities under joint venture arrangements directly, constituted as jointly controlled operations, the assets and liabilities arising from those jointly controlled operations are recognised in the statement of financial position of the relevant company on an accrual basis and classified according to the nature of the item. The Group's share of the income from jointly controlled operations, together with the expenses that it incurs are included in profit or loss when it is probable that the economic benefits associated with the transactions will flow to/from the Group.

(r) Provisions

Provisions are recognised when the Group has a present obligation as a result of a past event, and it is probable that the Group will be required to settle that obligation. Provisions are measured at the Directors' best estimate of the expenditure required to settle the obligation at the end of the reporting period, and are discounted to present value where the effect is material.

(s) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises of cash in hand and demand deposits, and short term highly liquid investments which are readily convertible into known amounts of cash, are subject to an insignificant risk of changes in value, and have a short maturity of generally within three months when acquired, less bank overdrafts which are repayable on demand and form an integral part of the Group's cash management.

For the purpose of the Group and Company statements of financial position, cash and cash equivalents comprise cash on hand and at banks, including term deposits, and assets similar in nature to cash, which are not restricted as to use.

(t) Borrowing costs

Borrowing costs directly attributable to the acquisition, construction or production of qualifying assets, which are assets that necessarily take a substantial period of time to get ready for their intended use or sale are added to the cost of those assets until such time as the assets are substantially ready for their intended use or sale. Investment income earned on the temporary investment of specific borrowings pending their expenditure on qualifying assets is deducted from the borrowing costs eligible for capitalisation.

All other borrowing costs are recognised in profit or loss in the period in which they are incurred.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(u) Related party transactions

(a) A person, or a close member of that person's family, is related to the Group if that person:

(i) has control or joint control over the Group;

(ii) has significant influence over the Group; or

(iii) is a member of the key management personnel of the Group or of a parent of the Group;

(b) An entity is related to the Group if any of the following conditions applies:

(i) the entity and the Group are members of the same group (which means that each parent, subsidiary and fellow subsidiary is related to the others);

(ii) one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of a group which the other entity is a member);

(iii) both entities are joint ventures of the same third party;

(iv) one entity is a joint venture of a third entity and the other entity is an associate of the third entity;

(v) the entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group;

(vi) the entity is controlled or jointly controlled by a person identified in (a); or

(vii) a person identified in (a)(i) has significant influence over the entity or is a member of the key management personnel of the entity (or of a parent of the entity).

Close family members of an individual are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity.

A transaction is considered to be a related party transaction when there is a transfer of resources and obligations between related parties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(v) Contingent liabilities and contingent assets

A contingent liability is a possible obligation that arises from past events and whose existence will only be confirmed by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. It can also be a present obligation arising from past events that is not recognised because it is not probable that outflow of economic resources will be required or the amount of obligation cannot be measured reliably. A contingent liability is not recognised but is disclosed in the notes to the consolidated financial statements. When a change in the probability of an outflow occurs so that outflow is probable, they will then be recognised as a provision.

A contingent asset is a possible asset that arises from past events and whose existence will be confirmed only by the occurrence or non-occurrence of one or more uncertain future events not wholly within the control of the Group. Contingent assets are not recognised but are disclosed in the notes to the consolidated financial statements when an inflow of economic benefits is probable. When inflow is virtually certain, an asset is recognised.

(w) Segment reporting

Operating segments, and the amounts of each segment item reported in the consolidated financial statements, are identified from the financial information provided regularly to the Group's chief operating decision maker for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

Individually material operating segments are not aggregated for financial reporting purposes unless the segments have similar economic characteristics and are similar in respect of the nature of products and services, the nature of production processes, the type or class of customers, the methods used to distribute the products or to provide the services, and the nature of the regulatory environment. Operating segments which are not individually material may be aggregated if they share a majority of these criteria.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

In the process of applying the Group's accounting policies which are described in Note 3 to the consolidated financial statements, management has made certain key assumptions concerning the future, and other key sources of estimation uncertainty at the end of the reporting period, that may have a significant risk in causing a material adjustment to the carrying amounts of assets and liabilities within the next financial year, are discussed below:

(a) Income taxes

Significant judgement is required in determining the provision for income tax. There are many transactions and calculations for which the ultimate tax determination is uncertain during the ordinary course of business. Where the final tax outcome of these matters is different from the amounts that were initially recorded, such differences will impact the income tax and deferred tax provisions in the period in which such determinations are made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(b) Impairment of exploration and evaluation assets

Exploration and evaluation assets are reviewed for possible impairment when events or changes in circumstances indicate that the carrying amount may not be recoverable. Determination as to whether and how much an asset is impaired involve management estimates and judgements such as future prices of oil and production profile. The impairment estimates and judgements such as future prices of oil and production profile. The impairment reviews and calculations are based on assumptions may allow the Group to avoid the need to impair any assets, whereas unfavourable changes may cause the assets to become impaired. The recoverable amount of exploration and evaluation assets has been determined based on market approach, comparable transactions (Note 22).

(c) Fair value of investment properties

The best evidence of fair value is current prices in an active market for similar lease and other contracts. In the absence of such information, the Group determines the amount within a range of reasonable fair value estimates including:

(i) current prices in an active market for properties of different nature, condition or location (or subject to different lease or other contracts), adjusted to reflect those differences; and

(ii) recent prices of similar properties in less active markets, with adjustments to reflect any changes in economic conditions since the date of the transactions that occurred at those prices; and

(iii) net rental income of the properties derived from the existing leases and/or achievable in the existing market with due allowance for the reversionary income potential of the leases, which have been then capitalised to determine the market value at an appropriate capitalization rate.

The Group uses assumptions that are mainly based on market conditions existing at the end of each reporting period.

The principal assumption underlying management's estimation of fair value is related to the estimated amount for which the property should exchange on the date of valuation between a willing buyer and a willing seller in an arm's length transaction after proper marketing wherein the parties had each acted knowledgeably and without compulsion.

The Group assesses the fair value of investment properties based on valuation determined by qualified independent professional surveyors.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

4. KEY SOURCES OF ESTIMATION UNCERTAINTY *(Continued)*

(d) Useful lives and impairment of property, plant and equipment

In accordance with HKAS 16, the Group estimates the useful lives of property, plant and equipment in order to determine the amount of depreciation expenses to be recorded. The useful lives are estimated at the time the asset is acquired based on historical experience, the expected usage, wear and tear of the assets, as well as technical obsolescence arising from changes in the market demands or service output of the assets. The Group also performs annual reviews on whether the assumptions made on useful lives continue to be valid. The Group tests annually whether the assets have suffered any impairment. The recoverable amount of an asset or a cash generating unit is determined based on value in use calculations which require the use of assumptions and estimates.

(e) Impairment of intangible assets

Determine whether intangible assets are impaired requires estimation of the value in use. The value in use calculation requires the entity to estimate the future cash flows expected to arise from the cash-generating unit and a suitable discount rate in order to calculate the present value.

The carrying amounts of intangible assets at the end of the year were approximately HK$293,120,000 (2012: HK$285,334,000) and no impairment loss was recognised for the year (2012: HK$34,450,000). Details of the impairment loss calculation are provided in Note 21 to the consolidated financial statements.

(f) Impairment of inventories

The management reviews an ageing analysis at the end of the reporting period, and makes impairment for obsolete and slow-moving inventory items identified that are no longer suitable for sales. The management estimates the net realisable value for such inventories based primarily on the latest invoice prices and current market conditions. The Group carries out an inventory review at the end of the reporting period and makes impairment for obsolete and slow-moving items, when necessary. During the years, no impairments on inventories were made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

The Group

	2013 HK$'000	2012 HK$'000
Financial assets		
Loan and receivables (including cash and bank balances)		
— Other receivables *(Note 28)*	28,117	24,667
— Cash and bank balances	848,460	634,146
	876,577	658,813
Available-for-sale investment *(Note 23)*	196,072	196,072
	1,072,649	854,885
Financial liabilities		
Amortised costs		
— Trade and other payables	27,581	20,321
— Borrowings *(Note 33)*	320,000	212,820
	347,581	233,141

The Company

	2013 HK$'000	2012 HK$'000
Financial assets		
Loan and receivables (including cash and bank balances)		
— Amounts due from subsidiaries *(Note 25)*	1,742,809	1,697,833
— Cash and bank balances	442,625	497,953
	2,185,434	2,195,786
Financial liabilities		
Amortised costs		
— Amounts due to subsidiaries *(Note 25)*	311,094	311,099
— Other payables	10,408	2,338
— Borrowings *(Note 33)*	–	1,000
	321,502	314,437

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies

The Group's financial instruments include available-for-sale investment, other receivables, cash and bank balances, trade and other payables and borrowings. Details of these financial instruments are disclosed in respective notes to the consolidated financial statements. The risks associated with these financial instruments and the policies on how to mitigate these risks are set out below. The management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

Market risk

The Group's activities expose primarily to the financial risks of changes in foreign exchange risk and interest rate risk.

Market risk exposures are measured by sensitivity analysis. There has been no change to the Group's exposure to market risk or the manner in which it manages and measures the risk.

(i) Foreign exchange risk

The Group operates in Hong Kong, the PRC and Madagascar and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars and Renminbi ("RMB"). Foreign exchange risk arises from the foreign currency denomination of commercial transactions, monetary assets and monetary liabilities. The Group has no significant direct exposure to foreign currencies as most of the commercial transactions, monetary assets and monetary liabilities are denominated in a currency same as the functional currency of each entity of the Group.

(ii) Interest rate risk

The Group is also exposed to market interest rate risk mainly in relation to floating rate bank borrowings (Note 33). The Group has obtained bank facilities and borrowings with rather stable interest rates, though on floating basis. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate published by the People's Bank of China arising from the Group's RMB denominated borrowings.

Sensitivity analysis

The sensitivity analyses below have been determined based on the exposure to interest rates for non-derivative instruments. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole period. A 100 basis point for the period increase or decrease is used when reporting interest rate risk internally to key management personnel and represents management's assessment of the reasonably possible change in interest rates.

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax profit for the year would increase/decrease by approximately HK$5,285,000 (2012: pre-tax loss would decrease/increase by approximately HK$4,223,000). This is mainly attributable to the Group's exposure to interest rates on its bank deposits, bank borrowings and pledged deposits.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Credit risk

The carrying amounts of other receivables and cash and bank balances included in the consolidated statements of financial position represent the Group's maximum exposure to credit risk in relation to the Group's financial assets. No other financial assets carry a significant exposure to credit risk.

The Group's concentration of credit risk by geographical location is mainly in the PRC.

In order to minimise the credit risk, the management of the Group has credit approvals and other monitoring procedures to ensure that follow-up action is taken on a timely basis and adequate impairment losses are made for irrecoverable amounts overdue. In this regards, the Directors consider that the Group's credit risk is significantly reduced.

Substantially all of the Group's cash and cash equivalents are mainly deposited in the state controlled PRC banks and international banks which the Directors assessed the credit risk to be insignificant.

Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term. As at the end of the reporting period, all of the Group's financial liabilities are expected to be matured within one year.

The Group

	Weighted average interest rate	On demand or less than 1 year	1-5 years	Over 5 years	Total undiscounted cash flows	Total carrying amount
	%	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
31 December 2013						
Non-derivative financial liabilities						
Trade and other payables	–	27,581	–	–	27,581	27,581
Borrowings	6.00	325,961	–	–	325,961	320,000
		353,542	–	–	353,542	347,581
31 December 2012						
Non-derivative financial liabilities						
Trade and other payables	–	20,321	–	–	20,321	20,321
Borrowings	6.23	218,948	–	–	218,948	212,820
		239,269	–	–	239,269	233,141

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES *(Continued)*

(b) Financial risk management objectives and policies *(Continued)*

Liquidity risk *(Continued)*

The Company

	Weighted average interest rate %	On demand or less than 1 year HK$'000	1-5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
31 December 2013						
Non-derivative financial liabilities						
Amounts due to subsidiaries	–	311,094	–	–	311,094	311,094
Other payables	–	10,408	–	–	10,408	10,408
		321,502	–	–	321,502	321,502
31 December 2012						
Non-derivative financial liabilities						
Amounts due to subsidiaries	–	311,099	–	–	311,099	311,099
Other payables	–	2,338	–	–	2,338	2,338
Borrowings	–	1,000	–	–	1,000	1,000
		314,437	–	–	314,437	314,437

(c) Fair value estimation

The fair value of financial assets and financial liabilities are determined as follows:

(i) The fair value of financial assets and financial liabilities with standard terms and conditions and traded in active markets are determined with reference to quoted market bid prices and ask prices respectively; and

(ii) The fair value of other financial assets and financial liabilities are determined in accordance with generally accepted pricing models (e.g. discounted cash flow analysis using observable and/or unobservable inputs).

The Group uses the following hierarchy for determining and disclosing the fair values of financial instruments:

(i) Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets and liabilities.

(ii) Level 2 fair value measurements are those derived from inputs other than quoted prices included within Level 1 that are observable for the asset or liabilities, either directly (i.e. as prices) or indirectly (i.e. derived from prices).

(iii) Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

No analysis is disclosed since the Group has no financial instruments that are measured at fair value subsequent to initial recognition at the end of the reporting period.

The Directors consider the carrying amounts of financial assets and financial liabilities recorded at amortised costs in the consolidated financial statements approximates to their fair values.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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6. CAPITAL RISK MANAGEMENT

The Group's objectives when managing capital are to ensure that entities in the Group will be able to continue as a going concern while maximising the returns to stakeholders through the optimisation of the debt and equity balance.

The capital structure of the Group consists of debts which include total liabilities (which includes trade and other payables and borrowings) and equity attributable to owners of the Company, mainly comprising issued capital, reserves and retained profits.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total liabilities divided by total equity. For the year ended 31 December 2013 and 2012, the Group's strategy was to maintain a low gearing ratio. The gearing ratio at 31 December 2013 and 2012 were as follows:

	2013 HK$'000	2012 HK$'000
Total liabilities	473,197	483,608
Equity attributable to owners of the Company	9,646,676	9,607,468
Gearing ratio	4.9%	5.0%

7. SEGMENT INFORMATION

The Group's operating and reportable segments are as follows:

(a) the supply and procurement operation segment involves trading and distribution of oil related products; and

(b) the oil and gas exploration, exploitation and operation segment involves oil and gas exploration, exploitation and operation. For the year ended 31 December 2013 and 2012, this segment did not generate any revenue or profit to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

7. SEGMENT INFORMATION *(Continued)*

Segment revenue and results

	Supply and procurement operation		Oil and gas exploration, exploitation and operation		Consolidated	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment revenue						
Sales to external customers	19,354,899	7,572,880	–	–	19,354,899	7,572,880
Segment results	121,144	20,330	(2,936)	(3,945)	118,208	16,385
Other revenue					16,365	4,790
Equity-settled share option expenses					–	(183)
Gain on derecognition of a subsidiary					–	14,809
Loss on sale of equity interest on available-for-sale investment					–	(26,378)
Investment property written off					–	(3,105)
Fair value change on investment properties					(6,331)	(2,879)
Impairment of intangible assets					–	(34,450)
Unallocated corporate expenses					(28,126)	(28,447)
Profit/(loss) from operating activities					100,116	(59,458)
Finance costs					(22,008)	(16,010)
Profit/(loss) before taxation					78,108	(75,468)
Taxation					(25,274)	(1,785)
Profit/(loss) for the year					52,834	(77,253)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2012: Nil).

Segment results represent the profit earned/(loss incurred) by each segment without allocation of other revenue, corporate expenses, finance costs and fair value change on investment properties. This is the measure reported to the chief operating decision maker for the purpose of resources allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

	Supply and procurement operation		Oil and gas exploration, exploitation and operation		Consolidated	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Segment assets	997,577	931,650	8,846,414	8,846,214	9,843,991	9,777,864
Unallocated assets					509,750	501,663
Total assets					10,353,741	10,279,527
Segment liabilities	544,207	562,763	9,945	7,734	554,152	570,497
Unallocated liabilities					13,239	6,306
Total liabilities					567,391	576,803

For the purpose of monitoring segment performance and allocating resources between segments:

- all assets are allocated to reportable segments other than corporate financial assets;
- all liabilities are allocated to reportable segments other than corporate financial liabilities.

Other segment information

	Supply and procurement operation		Oil and gas exploration, exploitation and operation		Unallocated		Consolidated	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Other segment information:								
Depreciation	5,386	5,115	176	1,503	273	407	5,835	7,025
Amortisation	515	502	20	20	–	–	535	522
Additions to non-current assets*	30,738	5,812	11,641	26,938	31	28	42,410	32,778

* The amount represents additions to property, plant and equipment and exploration and evaluation assets for the years.

Revenue from major products and services

The Group's revenue from its major products and services were from trading and distribution of oil related products.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

7. SEGMENT INFORMATION *(Continued)*

Geographical information

The Group operates in three principal geographical areas — the PRC, Hong Kong and Madagascar.

The Group's revenue from external customers and information about its non-current assets by geographical location are detailed below:

	Revenue from external customers		Non-current assets	
	2013	2012	**2013**	2012
	HK$'000	HK$'000	**HK$'000**	HK$'000
The PRC	**19,354,899**	7,572,880	**556,656**	525,617
Hong Kong	**–**	–	**176**	581
Madagascar	**–**	–	**8,789,553**	8,777,706
	19,354,899	7,572,880	**9,346,385**	9,303,904

Information about major customers

Included in revenue arising from trading and distribution of oil related products of HK$19,354,899,000 (2012: HK$7,572,880,000) are revenue of HK$15,773,213,000 (2012: HK$5,155,008,000) which arose from two (2012: one) customers of the Group which contributed 10% or more to the Group's revenue for the year.

Revenue from major customers, each of them amounted to 10% or more of the Group's revenue, are set out below:

	2013	2012
	HK$'000	HK$'000
Customer A	**10,821,510**	5,155,008
Customer B	**4,951,703**	–

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

8. TURNOVER AND OTHER REVENUE

Turnover represents the net invoiced value of goods sold, after allowances for returns and trade discounts. All significant intra-group transactions have been eliminated on consolidation.

An analysis of the Group's turnover and other revenue are as follows:

	2013 HK$'000	2012 HK$'000
Turnover		
Trading and distribution of oil related products	19,354,899	7,572,880
Other revenue		
Bank interest income	13,794	2,579
Rental income	2,571	2,210
Others	–	1
	16,365	4,790

9. OTHER GAINS AND LOSSES

	2013 HK$'000	2012 HK$'000
Net foreign exchange gain	7,557	–
Gain on derecognition of a subsidiary	–	14,809
Fair value change on investment properties	(6,331)	(2,879)
Impairment loss of intangible assets	–	(34,450)
Loss on sale of equity interest on available-for-sale investment	–	(26,378)
Investment property written off	–	(3,105)
	1,226	(52,003)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

10. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

The Group's profit/(loss) from operating activities is arrived at after charging:

	2013 HK$'000	2012 HK$'000
Cost of inventories sold	19,202,100	7,530,644
Auditors' remuneration	1,000	1,000
Depreciation of property, plant and equipment	5,835	7,025
Amortisation of prepaid lease payments	535	522
Minimum lease payments under operating leases of rented premises	5,469	5,095
Loss on disposal of property, plant and equipment	198	983
Staff costs (including Directors' remuneration)		
— Salaries and wages	11,597	11,494
— Pension scheme contributions	127	121
Equity-settled share option expenses	–	183

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

11. DIRECTORS' REMUNERATION

The board of directors of the Company is currently composed of 7 executive Directors and 4 independent non-executive Directors. Directors' remuneration disclosed pursuant to the Listing Rules and Section 161 of the Hong Kong Companies Ordinance, are as follows:

Name of directors

	Fee		Salaries and bonuses		Mandatory provident fund contributions		Total	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Executive directors								
Mr. Zhang Kaiyong *(Chairman)* *(appointed on 1 April 2012)*	–	–	250	187	–	–	250	187
Mr. Ren Yansheng *(Chief Executive Officer)* *(appointed on 10 April 2012)*	–	–	2,428	1,800	–	–	2,428	1,800
Mr. Hui Bo *(Vice President)* *(appointed on 1 April 2012)*	–	–	250	187	–	–	250	187
Mr. Shen Hao	–	–	250	250	–	–	250	250
Mr. Feng Dawei	–	–	250	250	–	–	250	250
Mr. Yang Jie *(appointed on 1 April 2012)*	–	–	250	187	–	–	250	187
Mr. To Kwan *(appointed on 1 April 2012)*	–	–	250	187	12	8	262	195
Dr. William Rakotoarisaina *(Vice Chairman)* *(resigned on 19 April 2013)*	–	–	75	250	–	–	75	250
Dr. Zhuo Ze Fan *(resigned on 1 April 2012)*	–	–	–	62	–	3	–	65
Mr. Hu Zhongmin *(resigned on 1 April 2012)*	–	–	–	62	–	–	–	62
Ms. Xie Yiping *(resigned on 1 April 2012)*	–	–	–	62	–	–	–	62
Mr. Liu Xingyuan *(resigned on 1 April 2012)*	–	–	–	62	–	–	–	62
Mr. Li Jiangdong *(passed away on 26 January 2012)*	–	–	–	21	–	–	–	21
Independent non-executive directors								
Mr. Ng Wing Ka	128	128	–	–	–	–	128	128
Mr. Leung Ting Yuk	128	128	–	–	–	–	128	128
Mr. Sun Liming *(appointed on 1 April 2012)*	128	96	–	–	–	–	128	96
Dr. Mu Guodong *(appointed on 28 December 2012)*	130	–	–	–	–	–	130	–
Mr. Ng Tang *(resigned on 1 April 2012)*	–	32	–	–	–	–	–	32
	514	384	4,003	3,567	12	11	4,529	3,962

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

11. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the Directors fell with the following bands:

	Number of Directors 2013	2012
HK$		
Nil–1,000,000	11	17
1,000,001–1,500,000	–	–
1,500,001–2,000,000	–	1
2,000,001–2,500,000	1	–
	12	18

Included in the Directors' remuneration were fees of HK$514,000 (2012: HK$384,000) paid to independent non-executive Directors. No fees were paid to executive Directors and non-executive Directors for the year (2012: Nil).

During the year, no bonus was paid to the Directors (2012: Nil). No Directors waived or agreed to waive any remuneration during the year (2012: Nil). In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2012: Nil).

During the year, no share options were granted to the Directors to subscribe for ordinary shares of the Company under the Company's share option scheme (2012: Nil).

12. SENIOR MANAGEMENT'S EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS

(a) Five highest paid individuals

The five individuals with the highest emoluments, one (2012: two) is Director whose emoluments are disclosed in Note 11.

The aggregate of the emoluments in respect of the other four (2012: three) non-directors are as follows:

	2013 HK$'000	2012 HK$'000
Basic salaries and bonuses	2,657	2,640
Mandatory provident fund contributions	54	31
	2,711	2,671

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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12. SENIOR MANAGEMENT'S EMOLUMENTS AND INDIVIDUALS WITH HIGHEST EMOLUMENTS *(Continued)*

(a) Five highest paid individuals *(Continued)*

The emoluments of the four (2012: three) individuals, included three individuals (2012: two) of senior management, with the highest emoluments are within the following band:

	Number of individuals	
	2013	2012
HK$		
Nil–1,000,000	**3**	2
1,000,001–1,500,000	**1**	1
	4	3

(b) Senior management of the Company

The emoluments of the senior management of the Company are within the following band:

	Number of individuals	
	2013	2012
HK$		
Nil–1,000,000	**2**	1
1,000,001–1,500,000	**1**	1
	3	2

During the year, no bonus was paid to the five highest paid individuals of the Group (2012: Nil). No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2012: Nil).

During the year, no share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme (2012: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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13. FINANCE COSTS

	2013 HK$'000	2012 HK$'000
Interest expenses on bank borrowings wholly repayable within five years	22,008	16,010

14. TAXATION

(a) No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits in Hong Kong for the year (2012: Nil). Taxes 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, interpretations and practices in respect thereof.

	2013 HK$'000	2012 HK$'000
Current taxation		
Charge for the year — Overseas	26,876	3,357
Deferred taxation		
Credit for the year *(Note 34)*	(1,602)	(1,572)
Total tax charged for the year	25,274	1,785

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

14. TAXATION *(Continued)*

(b) Reconciliation between tax expenses and accounting profit at applicable tax rates:

The Group — for the year ended 31 December 2013

	Hong Kong HK$'000	%	The PRC HK$'000	%	Madagascar HK$'000	%	Total HK$'000	%
Profit/(loss) before taxation	(17,397)		98,031		(2,526)		78,108	
Tax at applicable income tax rate	(2,871)	(16.5)	24,508	25.0	(505)	(20.0)	21,132	27.1
Tax effect of expenses and income not deductible or taxable	(467)	(2.7)	1,093	1.1	(78)	(3.1)	548	0.7
Tax effect of temporary difference	61	0.4	(738)	(0.7)	78	3.1	(599)	(0.8)
Tax effect of tax loss not recognised	3,277	18.8	133	0.1	644	25.5	4,054	5.2
Under provision in prior year	–	–	200	0.2	–	–	200	0.3
Effect on deferred tax resulting from change in tax rate	–	–	–	–	(61)	(2.4)	(61)	(0.1)
Tax charge for the year	–	–	25,196	25.7	78	3.1	25,274	32.4

The Group — for the year ended 31 December 2012

	Hong Kong HK$'000	%	The PRC HK$'000	%	Macau HK$'000	%	Madagascar HK$'000	%	Total HK$'000	%
(Loss)/profit before taxation	102,458		(559)		(111,551)		(65,816)		(75,468)	
Tax at applicable income tax rate	16,906	16.5	(140)	(25.0)	(13,386)	(12.0)	(13,821)	(21.0)	(10,441)	(13.8)
Tax effect of expenses and income not deductible or taxable	(20,619)	(20.1)	2,714	485.5	13,386	12.0	12,997	19.7	8,478	11.2
Tax effect of temporary difference	61	0.1	(720)	(128.8)	–	–	–	–	(659)	(0.9)
Tax effect of tax loss not recognised	3,652	3.5	964	172.4	–	–	824	1.3	5,440	7.2
Utilisation of tax loss previously not recognised	–	–	(976)	(174.6)	–	–	–	–	(976)	(1.3)
Effect on deferred tax resulting from change in tax rate	–	–	–	–	–	–	(57)	(0.1)	(57)	(0.1)
Tax charge/(credit) for the year	–	–	1,842	329.5	–	–	(57)	(0.1)	1,785	2.3

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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15. PROFIT/(LOSS) ATTRIBUTABLE TO OWNERS OF THE COMPANY

The consolidated profit attributable to owners of the Company for the year includes a loss of HK$10,868,000 (2012: HK$16,520,000) which has been dealt with in the financial statements of the Company.

16. DIVIDENDS

The Directors do not recommend payment of any dividends for the year (2012: Nil).

17. EARNINGS/(LOSS) PER SHARE

The calculation of the basic and diluted earnings/(loss) per share attributable to the owners of the Company is based on the following data:

	2013 HK$'000	2012 HK$'000
Earnings/(loss)		
Profit/(loss) attributable to the owners of the Company for the purpose of basic and diluted earnings/(loss) per share	30,920	(77,656)

	2013 '000	2012 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted earnings/(loss) per share	8,145,573	6,857,048

There were no dilutive potential ordinary shares in existence during the year ended 31 December 2013 as all share options were being expired and forfeited and therefore the diluted earnings per share are the same as the basic earnings per share.

During the year ended 31 December 2012, the Company's outstanding share options was not included in the calculation of diluted loss per share because the effect of the Company's outstanding share options was anti-dilutive and therefore the diluted loss per share are the same as the basic loss per share.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Construction in progress HK$'000	Total HK$'000
Cost						
At 1 January 2012	132,660	2,999	1,411	5,127	4,925	147,122
Additions	39	18	921	1,749	3,755	6,482
Written off/disposal	–	–	(673)	(4,211)	–	(4,884)
Transfer to investment properties *(Note)*	(1,078)	–	–	–	–	(1,078)
Exchange differences	1,432	223	10	12	52	1,729
At 31 December 2012 and 1 January 2013	133,053	3,240	1,669	2,677	8,732	149,371
Additions	–	274	272	488	29,735	30,769
Disposal	–	(113)	–	(652)	–	(765)
Exchange differences	3,631	87	35	56	292	4,101
At 31 December 2013	136,684	3,488	1,976	2,569	38,759	183,476
Accumulated depreciation						
At 1 January 2012	553	99	313	2,282	–	3,247
Charge for the year	4,461	402	731	1,431	–	7,025
Eliminated on written off/disposal	–	–	(267)	(3,275)	–	(3,542)
Eliminated on transfer *(Note)*	(26)	–	–	–	–	(26)
Exchange differences	4	191	9	–	–	204
At 31 December 2012 and 1 January 2013	4,992	692	786	438	–	6,908
Charge for the year	4,388	523	343	581	–	5,835
Eliminated on disposal	–	(65)	–	(489)	–	(554)
Exchange differences	144	18	18	5	–	185
At 31 December 2013	9,524	1,168	1,147	535	–	12,374
Net book value						
At 31 December 2013	**127,160**	**2,320**	**829**	**2,034**	**38,759**	**171,102**
At 31 December 2012	128,061	2,548	883	2,239	8,732	142,463

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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18. PROPERTY, PLANT AND EQUIPMENT *(Continued)*

Note:

During the year ended 31 December 2012, a property with an aggregate fair value of HK$1,554,000 was transfer from property, plant and equipment to investment properties. The difference between the fair value of these properties and their carrying value at the date of transfer amounting to HK$502,000 has been dealt with in revaluation reserve.

The Company

	Furniture, fixtures and equipment HK$'000
Cost	
At 1 January 2012	292
Written off/disposal	(17)
At 31 December 2012, 1 January 2013 and 31 December 2013	275
Accumulated depreciation	
At 1 January 2012	66
Charge for the year	58
Eliminated on written off/disposal	(3)
At 31 December 2012 and 1 January 2013	121
Charge for the year	56
At 31 December 2013	177
Net book value	
At 31 December 2013	**98**
At 31 December 2012	154

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

19. PREPAID LEASE PAYMENTS

The Group

	2013 HK$'000	2012 HK$'000
The Group's prepaid lease payments comprise:		
Land outside Hong Kong under medium term lease	21,497	21,471
Analysed for reporting purposes as:		
Current assets (include in prepayments, deposits and other receivables) *(Note 28)*	535	522
Non-current assets	20,962	20,949
	21,497	21,471
Analysed for reporting purposes as:		
At the beginning of the year	21,471	21,764
Amortisation for the year	(535)	(522)
Exchange differences	561	229
At end of the year	21,497	21,471

Amortisation on prepaid lease payments of HK$535,000 (2012: HK$522,000) have been charged to the administrative expenses in profit or loss for the year.

20. INVESTMENT PROPERTIES

The Group

	HK$'000
Fair value	
At 1 January 2012	39,652
Written off	(3,105)
Transfer from property, plant and equipment	1,554
Fair value changes	(2,879)
Exchange differences	(525)
At 31 December 2012 and 1 January 2013	34,697
Fair value changes	(6,331)
Exchange differences	733
At 31 December 2013	**29,099**

Unrealised loss on investment properties revaluation included in profit or loss for the year ended 31 December 2013 amounting to HK$6,331,000 (2012: HK$2,879,000).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

20. INVESTMENT PROPERTIES *(Continued)*

The Group

The fair value of the Group's investment properties at 31 December 2013 and 2012 have been arrived at on the basis of valuations carried out on the respective dates by Ascent Partners Group Limited ("Ascent Partners") and Cushman & Wakefield Valuation Advisory Services (HK) Limited ("Cushman & Wakefield") (2012: Ascent Partners and Avista Valuation Advisory Limited ("Avista")), independent qualified professional valuers not connected with the Group. Ascent Partners and Cushman & Wakefield have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

Valuation techniques

Income approach

Income approach operates by taking into account the net rental income of the subject properties derived from the existing tenancy with due allowance for the reversionary income potential, which are then capitalised into the value at an appropriate capitalisation rate.

Direct comparison approach

Direct comparison approach involves the analysis of recent market sales evidence of similar properties to compare with the premises under valuation. Each comparable is analysed on the basis of its unit rate; each attribute of the comparable is then compared with the subject and where there is a difference, the unit rate is adjusted in order to arrive at the appropriate unit rate for the subject. This is done by making percentage adjustments to the unit rate for various factors, such as location within the city, size and view.

Significant unobservable inputs used to determine fair value

Description	Fair value at 31 December 2013 HK$'000	Valuation technique	Fair value hierarchy	Range of significant unobservable inputs: Market rent	Range of significant unobservable inputs: Market value	Capitalisation rates
Investment properties located in the PRC	21,299	Direct comparison approach and income approach	Level 3	RMB8 to RMB49 per month per square meter	RMB269 per square meter	5.50% to 10.50%
Investment properties located in Madagascar	7,800	Direct comparison approach	Level 2	N/A	N/A	N/A

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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20. INVESTMENT PROPERTIES *(Continued)*

Significant unobservable inputs used to determine fair value *(Continued)*

The properties are either leased out in return of receiving rental income or held for capital appreciation and are measured using the fair value model and are classified and accounted for as investment properties.

The Group's investment properties are situated in Madagascar and the PRC and are held under long term lease and medium term leases respectively.

There has been no significant change from the valuation technique used in the prior year. In estimating the fair value of the properties, the highest and best use of the properties is their current use.

21. INTANGIBLE ASSETS

The Group

	Refined oil supply agreement HK$'000	Petroleum related business licence HK$'000	Total HK$'000
Cost			
At 1 January 2012	282,243	249,842	532,085
Exchange differences	3,091	–	3,091
At 31 December 2012 and 1 January 2013	285,334	249,842	535,176
Exchange differences	7,786	–	7,786
31 December 2013	293,120	249,842	542,962
Accumulated impairment			
At 1 January 2012	–	215,392	215,392
Impairment loss recognised during the year	–	34,450	34,450
At 31 December 2012, 1 January 2013 and 31 December 2013	–	249,842	249,842
Carrying amount			
At 31 December 2013	**293,120**	**–**	**293,120**
At 31 December 2012	285,334	–	285,334

The intangible assets represent a petroleum related business licence which allows the Group to carry on the business of import, transportation and distribution of petroleum in Madagascar and a supply agreement which enables the Group to have stable and sufficient supply of refined oil in the PRC.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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21. INTANGIBLE ASSETS *(Continued)*

Petroleum related business licence

During the year ended 31 December 2013, the business license has been expired and the Directors decided not to renew the business license. As at 31 December 2012, the Directors considered that the Group was expected not to allocate the resources for the development of the business of import, transportation and distribution of petroleum in Madagascar, therefore, the carrying amount of petroleum related business license amounting to HK$34,450,000 had been fully impaired for the year ended 31 December 2012.

Refined oil supply agreement

On 26 July 2011 and 1 November 2011, Yanchang Petroleum Group, the substantial shareholder of the Company, as the supplier has signed a supply agreement and a supplemental agreement respectively (the "Supply Agreement"), agreed to supply and Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang"), the indirect non-wholly owned subsidiary of the Company, as the customer has agreed to purchase the refined oil for three years starting from 26 July 2011.

The Supply Agreement has been expired during the year and it was renewed on 24 December 2013 by both parties. Details please refer to the announcement dated on 24 December 2013. Pursuant to the renewed Supply Agreement, Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for three years starting from 1 January 2014. The Supply Agreement is renewable another term of every three years under negotiation between both parties, subject to and on the conditions and terms of the Supply Agreement. The Directors are not aware of any expected impediment with respect to the renewal of the Supply Agreement and consider that the possibility of failing in Supply Agreement renewal is remote and the Supply Agreement will generate net cash inflows for the acquiring entity for an indefinite period. Therefore, the Supply Agreement is treated as having an indefinite useful life.

During the year, the Group carried out a review of the recoverable amount of its Supply Agreement. No impairment loss was recognised for the year. The recoverable amount of the Supply Agreement has been determined based on approved cash flow projections covering 3-year period, as the Directors consider that it will reflect more stable growth rate for the refined oil business. Cash flow projections during the budget period are based on the same expected gross margins during the budget period. The discount rate used in measuring value in use was 21.4% (2012: 16.3%).

Valuations of the intangible assets were carried out by Cushman & Wakefield, which has appropriate qualification and recent experience in the valuation of similar assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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22. EXPLORATION AND EVALUATION ASSETS

The Group

	HK$'000
Cost	
At 1 January 2012	12,303,734
Additions arising from jointly controlled operation	26,296
At 31 December 2012 and 1 January 2013	12,330,030
Additions arising from jointly controlled operation	11,641
At 31 December 2013	12,341,671
Impairment	
At 1 January 2012, 31 December 2012 and 1 January 2013 and 31 December 2013	3,757,059
Carrying amount	
At 31 December 2013	**8,584,612**
At 31 December 2012	8,572,971

Notes:

a. The exploration and evaluation assets represent (i) the oil and gas exploration, exploitation and operations rights and profit sharing rights (the "Exploration Rights") at the Oilfield Block 2104 and the Oilfield Block 3113 in Madagascar, onshore sites for oil and gas exploration, exploitation and operation; and (ii) expenditure paid for provision of services on activities relating to evaluation of the technical feasibility and commercial viability of extracting oil and gas in the Oilfield Block 2104 and the Oilfield Block 3113.

b. The Group entered into an investment and co-operation agreement with Yanchang Petroleum Group, the ultimate holding company of the Company, and ECO Energy (International) Investments Limited ("ECO") on exploration, exploitation and operation in the Oilfield Block 3113. Pursuant to the investment and co-operation agreement, the capital investment of the Oilfield Block 3113 shall be contributed by the Group, Yanchang Petroleum Group and ECO.

c. The Group has adopted HKFRS 6 Exploration for and Evaluation of Mineral Resources and HKAS 36 Impairment of Assets which require the Group to assess any impairment at each reporting date. The Directors are of the opinion that no further impairment of exploration and evaluation assets was required for the year ended 31 December 2013 and 2012.

d. The Group is required to assess at each reporting date any indicator that a previously recognised impairment loss no longer exists or has decreased. If there is such an indication, management should estimate the recoverable amount and determine whether any impairment reversal is appropriate.

e. The Directors are of the opinion that the current oil price movements do not result in impairment or a reversal of impairment for the long-life Exploration Rights in the Oilfield Block 2104 and the Oilfield Block 3113 for the year ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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23. AVAILABLE-FOR-SALE INVESTMENTS

The Group

	2013 HK$'000	2012 HK$'000
Unlisted investment, equity securities	196,072	196,072

On 6 January 2012, the Group and Jubilee Star Holdings Limited ("Jubilee Star"), an independent third party of the Group, entered into an agreement to acquire 30% equity interests in Gold Grand Investment Limited ("Gold Grand"), a company established in Madagascar. Pursuant to the agreement, the total consideration for the acquisition was HK$333,060,000 which was satisfied by issuing 300,000,000 shares of the Company (the share price of the Company at the completion date was HK$0.495) and a non-interest bearing promissory note (the "Promissory Note") of principal amount of RMB150,000,000 (approximately of HK$184,560,000) with maturity of 6 months. After further acquisition of 30% equity interests in Gold Grand, the Group was beneficially interested in 40% of the equity interests in Gold Grand.

Later on, the Group and Jubilee Star entered into a supplemental agreement on 31 May 2012 and agreed that the Promissory Note of principal amount of RMB150,000,000 was fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand was amended from 30% to 11%. The cost of the disposed 19% equity interests in Gold Grand was HK$210,938,000. As a result, there was a loss of HK$26,378,000 arising on sale of available-for-sale investment.

The Board does not believe that the Group is able to exercise significant influence over Gold Grand, as the remaining equity interests were held by one shareholder, who also manages the day-to-day operations of Gold Grand. Therefore, the investment in Gold Grand was not classified as investment in an associate during both years.

The equity securities are stated at cost less impairment loss at the end of the reporting period. The Directors are of the opinion that no impairment is needed for the year ended 31 December 2013 and 2012.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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24. GOODWILL

The Group

	2013 HK$'000	2012 HK$'000
Cost/carrying amount		
At the beginning and the end of the year	51,418	51,418

During the year, the Directors determined that no impairment loss should be provided in respect of the following cash generating units containing goodwill (2012: Nil).

The carrying amount of goodwill (net of impairment losses) at 31 December 2013 and 2012 allocated to the cash generating unit as follow:

	2013 HK$'000	2012 HK$'000
Trading and distribution of oil related products	51,418	51,418

The recoverable amount of the above cash generating unit was determined on the basis of value in use calculations. The recoverable amount is based on certain assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a 3-year period. The discount rate used is 20.0% (2012: 16.3%). Cash flow projections during the budget period are based on the same expected gross margins throughout the budget period. Cash flows beyond 3-year period are extrapolated using a steady rate of 3% per annum. The Directors believe that any reasonably possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

The key assumption used in the value in use calculations of the cash generating unit is as follows:

Budgeted gross margin:	Average gross margin achieved in the period immediately before the budget period. The value assigned to the assumptions reflect past experience.

Note:

For both years, trading and distribution of oil related products belongs to supply and procurement operation segment to the Group's business.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. INTERESTS IN SUBSIDIARIES

The Company

	2013 HK$'000	2012 HK$'000
Unlisted shares, at cost	4,847,011	4,847,011
Less: Provision for impairment loss on investments in subsidiaries *(Note)*	(249,920)	(250,289)
	4,597,091	4,596,722
Amounts due from subsidiaries	1,769,889	1,718,421
Less: Provision for impairment loss on amounts due from subsidiaries *(Note)*	(27,080)	(20,588)
	1,742,809	1,697,833
	6,339,900	6,294,555
Amounts due to subsidiaries	311,094	311,099

The amounts due from subsidiaries are unsecured, interest-free and not recoverable within one year from the end of the reporting period and the amounts are therefore shown as non-current assets.

The amounts due to subsidiaries are unsecured, interest-free and repayable on demand.

Note:

The Directors estimate the investment costs and the amounts due from subsidiaries by discounting their future cash flow at the prevailing market borrowing rate. In view of the net liabilities position of the Company's subsidiaries as at 31 December 2013 and 2012, the Directors considered that the investments in subsidiaries and amounts due from subsidiaries would not be recoverable, and thus they conclude it is appropriate to make provision for impairment loss.

Movement in provision for impairment loss on investments in subsidiaries is as follows:

	2013 HK$'000	2012 HK$'000
At the beginning of the year	250,289	–
Reversal of impairment loss	(369)	–
Impairment loss recognised	–	250,289
At the end of the year	249,920	250,289

Movement in provision for impairment loss on amounts due from subsidiaries is as follows:

	2013 HK$'000	2012 HK$'000
At the beginning of the year	20,588	5,280
Impairment loss recognised	6,492	15,308
At the end of the year	27,080	20,588

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

25. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries of the Company as at 31 December 2013 were as follows:

Name	Place of incorporation/ establishment	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Madagascar Energy International Gas Station Group Limited	Madagascar	Ordinary Ar. 10,000,000	100	–	Import, transportation and distribution of petroleum
Dolaway Group Limited	BVI	Ordinary US$100	100	–	Investment holding
Madagascar Petroleum International Limited	BVI	Ordinary US$1,000	–	100	Oil and gas exploration, exploitation and operation
Madagascar Energy International Limited	BVI	Ordinary US$1,000	93	7	Oil and gas exploration, exploitation and operation
Forever Peace Investment Limited	Hong Kong	Ordinary HK$1	–	100	Investment holding
Shaanxi Hengtai Energy Technology Development Limited	PRC	Paid-up capital RMB30,000,000	–	100	Investment holding
Xian Guotai Basic Energy Development Co., Limited	PRC	Paid-up capital RMB25,500,000	–	100	Investment holding
Henan Yanchang Petroleum Sales Co., Limited	PRC	Paid-up capital RMB35,000,000	–	70	Wholesale, retail, storage and transportation of refined oil
Metro City Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Forever Mind Limited	Hong Kong	Ordinary HK$100	–	100	Investment holding
Sino Union Energy (H.K.) Limited	Hong Kong	Ordinary HK$1	–	100	Inactive
Henan Yanchang Petroleum Energy Technology Limited*	PRC	Paid-up capital RMB50,000,000	–	70	Inactive
Noble Soar Limited**	BVI	Ordinary US$1	100	–	Investment holding
Yanchang Petroleum International Trading Limited (formerly known as "Active Sino Group Limited")	Hong Kong	Ordinary HK$1	–	100	Provision of management services to the holding company
Yanchang International (Canada) Limited***	Canada	Ordinary CAD1	–	100	Investment holding

* Henan Yanchang Petroleum Energy Technology Limited was incorporated on 29 September 2013.

** Noble Soar Limited was incorporated on 7 January 2013.

*** Yanchang International (Canada) Limited was incorporated on 30 August 2013.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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25. INTERESTS IN SUBSIDIARIES *(Continued)*

The above table lists the subsidiaries of the Company which, in the opinion of the Directors, principally affected the results for the year or formed a substantial portion of the net assets of the Group. To give details of other subsidiaries would, in the opinion of the Directors, result in particulars of excessive length.

Details of non-wholly owned subsidiary that has material non-controlling interests:

Name	Place of incorporation/ establishment	Proportion of ownership interests and voting rights held by non-controlling interests		Profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2013	2012	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Henan Yanchang Petroleum Sales Co., Limited	PRC	30%	30%	22,007	403	120,562	95,256

Summarised financial information in respect of the Group's subsidiary that has material non-controlling interests is set out below. The summarised financial information below represents amounts before intra-group eliminations.

	2013 HK$'000	2012 HK$'000
Current assets	440,835	406,049
Non-current assets	505,238	474,199
Current liabilities	(459,862)	(478,992)
Non-current liabilities	(84,337)	(83,736)
Total equity	401,874	317,520

	2013 HK$'000	2012 HK$'000
Turnover	19,354,899	7,572,880
Cost of sales and expenses	(19,202,100)	(7,530,644)
Profit for the year	73,357	1,342
Other comprehensive income for the year	8,796	3,353
Total comprehensive income for the year	82,153	4,695
Net cash inflow from operating activities	175,998	23,170
Net cash outflow from investing activities	(30,725)	(5,812)
Net cash inflow from financing activities	80,208	71,245
Net cash inflow	225,481	88,603

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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26. INTERESTS IN JOINTLY CONTROLLED OPERATION

The Group

The Group had entered into a joint venture agreement in the form of a jointly controlled operation to jointly invest and manage the exploration, exploitation and operations of the Oilfield Block 3113. The Group has 31% interests in the joint venture.

For the year ended 31 December 2013 and 2012, the aggregate amount of assets, liabilities, income and expenses recognised in the consolidated financial statements in relation to interest in jointly controlled operation are as follows:

	2013 HK$'000	2012 HK$'000
Assets	211,553	211,740
Liabilities	–	(12)

	2013 HK$'000	2012 HK$'000
Income	–	–
Expenses	(176)	(511)

27. INVENTORIES

The Group

Inventories represented the merchandise of refined oil products at the end of the reporting period.

28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	2013 HK$'000	2012 HK$'000
Prepaid lease payments *(Note 19)*	535	522
Prepayments to suppliers of refined oil products	101,886	239,919
Other deposits	252	70
Other receivables	28,117	24,667
	130,790	265,178

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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28. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES *(Continued)*

Movement in the provision for impairment loss recognised in respect of other receivables is summarised as follows:

	2013 HK$'000	2012 HK$'000
At the beginning of the year	–	2,793
Written off during the year	–	(2,793)
At the end of the year	–	–

In determining the recoverability of other receivables, the Group considers any change in credit quality of the other receivables from the date credit was initially granted up to the end of the reporting period. The impairment loss recognised represents the difference between the carrying amount of the specific other receivables and the present value of the expected recoverable amount.

29. CASH AND BANK BALANCES

The Group

Included in the cash and bank balances as at 31 December 2013 were amounts in RMB equivalent to HK$666,564,000 (2012: HK$135,864,000) which are not freely convertible into other currencies.

30. SHARE CAPITAL

Shares

	Number of shares		Share capital	
	2013 '000	2012 '000	2013 HK$'000	2012 HK$'000
Authorised:				
Ordinary shares of HK$0.02 each	100,000,000	100,000,000	2,000,000	2,000,000
Issued and fully paid:				
At the beginning of the year, ordinary shares of HK$0.02 each	8,145,573	6,545,573	162,911	130,911
Consideration shares *(Note i)*	–	300,000	–	6,000
Issuance of ordinary shares *(Note ii)*	–	1,300,000	–	26,000
At the end of the year, ordinary shares of HK$0.02 each	8,145,573	8,145,573	162,911	162,911

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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30. SHARE CAPITAL *(Continued)*

Shares *(Continued)*

Notes:

(i) On 6 January 2012, the Group acquired 30% equity interests of Gold Grand from Jubilee Star, an independent third party, for a consideration of HK$333,060,000. The consideration for the acquisition was satisfied by (i) HK$184,560,000 by way of the Promissory Note; and (ii) HK$148,500,000 by way of 300,000,000 consideration shares at the market price of HK$0.495 per share on the completion date. For details, please refer to the Company's announcement dated 10 January 2012.

(ii) On 1 September 2012, the Company entered into a subscription agreement with its substantial shareholder, Yanchang Petroleum Group, pursuant to which Yanchang Petroleum Group agreed to subscribe for and the Company agreed to allot and issue 1,300,000,000 shares in cash at the subscription price of HK$0.51 per share. For details, please refer to the Company's announcement dated 1 September 2012.

Share Options

Share Option Scheme

The Company operates a share option scheme ("the Scheme") for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the Scheme included the Company's Directors and other employees of the Group. The Scheme was adopted on 1 November 2002 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12 month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercise as the Directors may at their discretion determine.

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31 December 2013

30. SHARE CAPITAL *(Continued)*

Share Options *(Continued)*

Share Option Scheme *(Continued)*

The following tables disclose movements in the Company's share options:

31 December 2013

Name or category of participant	Option type	Number of share options: At 1 January 2013	Granted during the year	Exercised during the year	Expired/ forfeited during the year	At 31 December 2013	Date of grant of share options* (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK$	Price of Company's share at grant date of share options HK$
Employees other than Directors	2010(A)	1,000,000	–	–	(1,000,000)	–	10/12/2010	10/12/2011 to 9/12/2015	0.7	0.68
	2010(A)	1,000,000	–	–	(1,000,000)	–	10/12/2010	10/12/2012 to 9/12/2015	0.7	0.68
Consultant	2010(B)	10,000,000	–	–	(10,000,000)	–	10/12/2010	10/6/2011 to 9/12/2013	0.7	0.68
		12,000,000	–	–	(12,000,000)	–				

31 December 2012

Name or category of participant	Option type	Number of share options: At 1 January 2012	Granted during the year	Exercised during the year	Forfeited during the year	At 31 December 2012	Date of grant of share options* (dd/mm/yy)	Exercise period of share options (dd/mm/yy)	Exercise price of share options HK$	Price of Company's share at grant date of share options HK$
Employees other than Directors	2010(A)	1,000,000	–	–	–	1,000,000	10/12/2010	10/12/2011 to 9/12/2015	0.7	0.68
	2010(A)	1,000,000	–	–	–	1,000,000	10/12/2010	10/12/2012 to 9/12/2015	0.7	0.68
Consultant	2010(B)	10,000,000	–	–	–	10,000,000	10/12/2010	10/6/2011 to 9/12/2013	0.7	0.68
		12,000,000	–	–	–	12,000,000				

Note:

At 31 December 2013, all the share options granted have been expired or forfeited. No shares in respect of which share options had been granted remained outstanding under the Scheme.

At 31 December 2012, the number of shares in respect of which share options had been granted and remained outstanding under the Scheme was 12,000,000, representing 0.14% of the shares of the Company in issue at that date. The weighted average exercise price per share as at 31 December 2012 was HK0.7.

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30. SHARE CAPITAL *(Continued)*

Share Options *(Continued)*

New Share Option Scheme

In view of the termination of the Scheme, the Company has approved for the adoption of a new share option scheme ("the New Scheme") on 31 May 2012.

The New Scheme operates for the purpose of providing incentives and rewards to eligible participants who contribute to the success of the Group's operations. Eligible participants of the New Scheme included the Directors and other employees of the Group. The New Scheme was adopted on 31 May 2012 and, unless otherwise cancelled or amended, will remain in force for ten years from that date.

The maximum number of shares in respect of which share options may be granted under the New Scheme shall not exceed 10% of the share capital of the Company in issue as at the date of approval of the New Scheme. In addition, the maximum number of shares in respect of which share options may be granted to any eligible person within any 12 month period is limited to 1% of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

The exercise price of the share options is determinable by the Directors, but may not be less than the highest of (i) the closing price of the Company's shares as stated in the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

The offer of a grant of share options may be accepted within 28 days from the date of the offer with a consideration of HK$1 being payable by the grantee. An option may be exercised in accordance with the terms of the New Scheme at any time during a period to be determined and notified by the Directors to each grantee, which period may commence on the date on which the offer is made but shall end in any event not later than 10 years from the date of grant of the option subject to the provisions for early termination thereof and to the minimum period for which the option has to be held before it can be exercise as the Directors may at their discretion determine.

No share option was granted under the New Scheme during the year.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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31. RESERVES

The Group

The amounts of the Group's reserves and the movements therein for the current year and prior years are presented in the consolidated statement of changes in equity on page 41 of the consolidated financial statements.

The Company

	Share premium HK$'000 (Note i)	Contribution surplus HK$'000 (Note ii)	Share option reserve HK$'000	Accumulated loss HK$'000	Total HK$'000
At 1 January 2012	5,859,769	54,045	159,063	(253,806)	5,819,071
Equity-settled share option expenses	–	–	183	–	183
Issue of ordinary shares	637,000	–	–	–	637,000
Consideration shares	142,500	–	–	–	142,500
Total comprehensive loss for the year	–	–	–	(282,118)	(282,118)
At 31 December 2012 and 1 January 2013	6,639,269	54,045	159,246	(535,924)	6,316,636
Expiry of share options	–	–	(158,501)	158,501	–
Forfeited share options	–	–	(745)	745	–
Total comprehensive loss for the year	–	–	–	(17,026)	(17,026)
At 31 December 2013	**6,639,269**	**54,045**	**–**	**(393,704)**	**6,299,610**

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$4,876,210,000 (2012: HK$4,876,210,000); and (ii) special reserve of HK$1,763,059,000 (2012: HK$1,763,059,000). The special reserve represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries or additional interests on available-for-sale investment in prior years.

(ii) The contribution surplus of the Group represents the difference between the nominal value of the share capital of the subsidiaries acquired pursuant to the Group Reorganisation to rationalise the structure of the Group in preparation for the public listing of the Company's shares on the Stock Exchange set out in the Company's prospectus dated 30 March 2001, over the nominal value of the shares of the Company issued in exchange therefor.

(iii) The Company had distributable reserves of HK$4,536,551,000 at 31 December 2013 (2012: HK$4,394,330,000), which included the Company's contributed surplus in the amount of HK$54,045,000 (2012: HK$54,045,000). Under the Bermuda Companies Act, the contributed surplus is distributable to owners of the Company in certain circumstances. In addition, the Company's share premium account, in the amount of HK$4,876,210,000 at 31 December 2013 (2012: HK$4,876,210,000), may be distributed in the form of fully paid bonus shares.

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32. TRADE AND OTHER PAYABLES

The Group

	2013 HK$'000	2012 HK$'000
Trade payables	23	–
Deposit received in advance from refined oil wholesale customers	125,616	250,467
Other payables	27,558	20,321
	153,197	270,788

An aged analysis of the trade payables at the end of the reporting period, based on invoice date, is as follows:

	2013 HK$'000	2012 HK$'000
0 to 30 days	23	–

As at 31 December 2013 and 2012, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

33. BORROWINGS

	The Group		The Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Other borrowing	–	1,000	–	1,000
Bank borrowings	320,000	211,820	–	–
	320,000	212,820	–	1,000

At the end of each reporting period, details of the bank borrowings were as follows:

	The Group		The Company	
	2013 HK$'000	2012 HK$'000	2013 HK$'000	2012 HK$'000
Unsecured	320,000	212,820	–	1,000
Carrying amount repayable:				
Within one year or on demand	320,000	212,820	–	1,000
Interest rate				
Interest free	–	1,000	–	1,000
Floating rate	320,000	211,820	–	–
	320,000	212,820	–	1,000

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33. BORROWINGS *(Continued)*

The ranges of effective interest rates (which are equal to the contracted interest rates) on bank borrowings are as follows:

	The Group		The Company	
	2013	2012	**2013**	2012
Floating rate	**6.00%**	6.00% to 6.56%	**–**	–

34. DEFERRED TAXATION

The Group

	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Investment properties HK$'000	Intangible assets HK$'000	Total HK$'000
At 1 January 2012	7,344	1,778	5,742	70,561	85,425
Exchange differences	80	19	33	773	905
Effect of change in tax rate	–	–	(57)	–	(57)
Investment property written off	–	–	(795)	–	(795)
Credited to profit or loss during the year	–	–	(720)	–	(720)
Debited to revaluation reserve during the year	–	–	123	–	123
At 31 December 2012 and 1 January 2013	7,424	1,797	4,326	71,334	84,881
Exchange differences	203	49	144	1,946	2,342
Effect of change in tax rate	–	–	(61)	–	(61)
Credited to profit or loss during the year	–	–	(1,602)	–	(1,602)
At 31 December 2013	**7,627**	**1,846**	**2,807**	**73,280**	**85,560**

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 December 2013 (2012: Nil).

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35. RETIREMENT BENEFITS PLANS

The Group operates a defined contribution MPF Scheme in Hong Kong under the Mandatory Provident Fund Schemes Ordinance for those employees who are eligible to participate in the MPF Scheme. The MPF Scheme has operated since 1 December 2000. The assets of the MPF Scheme are held separately from those of the Group in an independently administered fund. The Group's employer contributions vest fully with the employees when contributed into the MPF Scheme, except for the Group's employer voluntary contributions, which are refunded to the Group when the employee leaves employment prior to the contributions vesting fully, in accordance with the rules of the MPF Scheme.

Pursuant to the regulations of the relevant authorities in the PRC, the Group participates in the PRC Schemes whereby the Group is required to contribute to the PRC Schemes to fund the retirement benefits of the eligible employees. Contributions made to the PRC Schemes are calculated based on certain percentages of the applicable payroll costs as stipulated under the requirements in the PRC. The relevant authorities of the PRC are responsible for the entire pension obligations payable to the retired employees. The only obligation of the Group with respect to the PRC Schemes is to pay the ongoing required contributions under the PRC Schemes.

The retirement benefit schemes contribution represents gross contributions by the Group to the PRC Schemes operated by the relevant authorities of the PRC.

The total cost charged to profit or loss of HK$127,000 for the year ended 31 December 2013 (2012: HK$121,000) represented contributions payable to the above schemes by the Group.

36. OPERATING LEASE ARRANGEMENTS

The Group as lessee

The Group leased an office property, staff quarters and lands under operating lease arrangements. Lease for office properties are negotiated for a term of 2 to 3 years and leases for the staff quarters and lands are negotiated for terms ranging from half to 10 years.

At the end of the reporting period, the Group had total future minimum lease payments under a non-cancellable operating lease falling due as follows:

	2013 HK$'000	2012 HK$'000
Within one year	5,642	3,579
In the second to fifth year, inclusive	6,885	381
Over five years	–	50
	12,527	4,010

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36. OPERATING LEASE ARRANGEMENTS *(Continued)*

The Group as lessor

The Group leases certain investment properties under operating lease arrangements, with leases negotiated for terms ranging from 1 to 10 years.

At the end of each reporting period, the Group had contracted with tenants for leases with the following future minimum lease payment:

	2013 HK$'000	2012 HK$'000
Within one year	2,675	1,976
In the second to fifth year, inclusive	6,748	7,402
Over five years	50	839
	9,473	10,217

37. COMMITMENTS

The Group had capital commitments to pay sub-pipeline construction fees under Henan Yanchang amounted to HK$79,344,000 in total, which were contracted but not provided for as at 31 December 2013 (2012: HK$2,050,000).

38. CONTINGENT LIABILITIES

As at 31 December 2013, the Group and the Company had no significant contingent liabilities (31 December 2012: Nil).

39. MATERIAL RELATED PARTIES TRANSACTIONS

Save as disclosed elsewhere in the consolidated financial statements, during the year the Group had the following transactions with related parties.

Remuneration for key personnel management, including emoluments paid to the Company's Directors and certain highest paid employees, as disclosed in Notes 11 and 12 to the consolidated financial statements, are as follows:

Key management personnel

	2013 HK$'000	2012 HK$'000
Salaries and allowance	6,776	6,591
Mandatory provident fund contributions	51	47
	6,827	6,638

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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39. MATERIAL RELATED PARTIES TRANSACTIONS *(Continued)*

Key management personnel *(Continued)*

During the year ended 31 December 2013, the Group had the following connected transactions with related parties:

Name of related parties	Relationship	Nature of transactions	HK$'000
Yanchang Petroleum Group	Substantial shareholder	Supply of refined oil	4,619,739

Notes: The transaction constitutes continuing connected transaction under the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

40. NON-CASH TRANSACTIONS

On 6 January 2012, as part of the consideration for the acquisition of 30% equity interests in Gold Grand, the Group issued a non-interest bearing promissory note of principal amount of RMB150,000,000 (approximately of HK$184,560,000) with maturity of 6 months. Later on, on 31 May 2012, such promissory note was fully redeemed by the Company while the equity interests acquired by the Group in Gold Grand amended from 30% to 11%.

41. EVENTS AFTER THE REPORTING PERIOD

The following significant events took place subsequent to 31 December 2013:

(a) Renewal of refined oil supply agreement

On 26 July 2011, Henan Yanchang and Yanchang Petroleum Group entered into the Supply Agreement, pursuant to which Yanchang Petroleum Group has agreed to sell and Henan Yanchang has agreed to purchase refined oil for the three years ended 31 December 2013. As the Supply Agreement expired on 31 December 2013, Henan Yanchang and Yanchang Petroleum Group entered into the new supply agreement on 24 December 2013, pursuant to which Yanchang Petroleum Group will continue to supply refined oil to Henan Yanchang for the three financial years ending 31 December 2016. For details, please refer to the circular (the "Circular") and the notice of the special general meeting (the "SGM Notice") of the Company both dated 17 January 2014.

At the special general meeting held on 27 February 2014, the Board announced that the ordinary resolution, as set out in the Circular and the SGM Notice in relation to renewal of Continuing Connected Transaction was duly passed by the independent shareholders by way of poll. Please refer to the Company's announcement dated on 27 February 2014 for the details.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2013

41. EVENTS AFTER THE REPORTING PERIOD *(Continued)*

(b) Completion of the proposed acquisition and the convertible bond subscription

On 28 August 2013, the Company entered into a subscription agreement (the "Subscription Agreement") with Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK"), pursuant to which Yanchang Petroleum HK has conditionally agreed to subscribe for and the Company has conditionally agreed to issue the convertible bond (the "Convertible Bond") in the aggregate principal amount of HK$1.6 billion payable in cash at a conversion price of HK$0.40 per conversion share.

On 3 September 2013, the Company, the Company's wholly owned subsidiary (the "Purchaser") and Novus Energy Inc. ("Novus"), a Canada listed oil and gas corporation, entered into an arrangement agreement (the "Arrangement Agreement") in relation to the conditional acquisition of all the issued shares of Novus (the "Proposed Acquisition") by the Company (through the Purchaser) pursuant to a plan of arrangement under the Business Corporations Act (Alberta) of Canada. Upon completion of the Proposed Acquisition, Novus will be delisted and become a wholly owned subsidiary of the Purchaser.

The Company intends to finance the Proposed Acquisition through the proceeds of the Convertible Bond subscription together with its internal resources. For details, please refer to the circular of the Company dated 7 December 2013.

The Convertible Bond subscription was completed on 7 January 2014 with all the conditions precedent under the Subscription Agreement being fulfilled. Following the issuance of the Convertible Bond, Yanchang Petroleum HK was interested in the Convertible Bond in the principal amount of HK$1.6 billion and none of the Convertible Bond was converted as at 7 January 2014.

The Proposed Acquisition was completed on 21 January 2014 with all the conditions precedent under the Arrangement Agreement being fulfilled. After the acquisition, the Company has engaged an independent qualified professional valuer to value the fair value of the property, plant and equipment on the completion date. Since the valuation is still in progress, the Company is unable to measure any possible goodwill or gain from bargain purchase as at the date of completion. Therefore, the Directors considered that it is not practicable to disclose the financial information of Novus on the completion date at this stage.

(c) Full conversion of the Convertible Bond

On 27 January 2014, 4,000,000,000 conversion shares were allotted and issued to Yanchang Petroleum HK.

42. COMPARATIVE FINANCIAL INFORMATION

Certain comparative figures have been adjusted to conform with the current year's presentation.

43. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of directors on 28 March 2014.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2013 are as follows:

Location	Type	Tenure	Attributable interest to the Group
Villa NY Ambaniandro Propsper Emphyteose, the whole lot being 59441/59442A Section Bd No 1 – Vol II 230/N – 1205 Soanierana District, Antananarivo, The Republic of Madagascar	Vacant land	Long-term lease	100%
107 China National Highway, Hezhuang Country, Xinzheng City, Zhengzhou, Henan Province, The PRC	Petrol station and land	Medium-term lease	70%
Baqianxiang Village, Xinzheng City, Zhengzhou, Henan Province, The PRC	Petrol station and land	Medium-term lease	70%
Renmin Road, Xinzheng City, Zhengzhou, Henan Province, The PRC	Petrol station	Medium-term lease	70%
Zhengxin Highway, (Zhangzhai Village of Longhu Town), Xinzheng City, Zhengzhou, Henan Province, The PRC	Petrol station	Medium-term lease	70%
No. 22 Xinjian North Road, Xinzheng City, Zhengzhou, Henan Province, The PRC	Building and land	Medium-term lease	70%
No. 1601–1609 on level 16 of Zijincheng, No. 16 Zijinshan Road, Jinshui District, Zhengzhou City, Henan Province, The PRC	Building and car park space	Medium-term lease	70%
Lianhe Road, Hezhuang Country, Xinzheng City, Zhengzhou, Henan Province, The PRC	Building	Medium-term lease	70%