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 2014


PECOS

CONTENTS

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. Zhao Jie
Mr. Andres Pena Salceda

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
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Central
Hong Kong

REGISTERED OFFICE

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Hamilton HM 11
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BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

Codan Services Limited
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HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

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Level 22 Hopewell Centre
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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
National Bank of Canada

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

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WEBSITE

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CHAIRMAN'S STATEMENT

Under enormous support of the Board and the controlling shareholder of the Company, the performance of upstream oil and gas production business, exploration business and downstream refined oil trading business hit a record in 2014. With in-production oil and gas project in Canada achieved nearly 1.5 million barrels of oil equivalent ("BOE") of production; the Oilfield Block 2104 exploration project in Madagascar completed 197 km of 2D seismic data collection, analysis and interpretation; and the volume of refined oil trading in Henan reached more than 2.6 million tonnes, the Company's upstream and downstream businesses has been stepped up to another new stage.

BUSINESS REVIEW

In-production Oil and Gas Business

The acquisition of Novus Energy Inc. ("Novus") in Canada was completed at the beginning of 2014. Our management has resolved cultural and management differences between the Company and Novus during the course of integration, and has progressively consolidated human resources, operation and financials of Novus into the Company. As a result of our management's efforts devoted to overcome negative impacts of unfavorable weather condition and slump in oil price, Novus has achieved growth both in production and profit. In 2014, the daily average production of Novus was 4,251 BOE, representing an increase of 6% as compared with the previous year; the annual revenue was Canadian dollars 120 million, representing an increase of 7% as compared with the previous year; the net profit after taxation was Canadian dollars 24.34 million, up by 64% as compared with the previous year. According to the reserves report issued by an independent technical consultant, the Proved plus Probable (2P) Reserves of Novus was 22.39 million BOE as at 31 December 2014, representing an increase of 3% as compared with the previous year. Novus currently has 669 wells in production.

Novus commenced its pipelines connection project at the end of 2014, connecting 63 wells in the region by constructing a network of 12.65 km oil and gas pipelines in Flaxcombe, the core production region at a project budget of Canadian dollars 7.5 million. Upon completion of pipelines connection project, it is expected that the daily production volume will increase by approximately 610 BOE in the first year. In addition, displacement of tank truck for oil transportation will lower the transportation costs by Canadian dollars 1.3 per BOE, and will also minimize the effects of springbreak and rainstorm on the sales of oil and gas. The pipelines project will commence operation at the beginning of 2015 upon completion.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW *(Continued)*

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

With the international crude oil price plummeting, Novus intends to control its capital expenditure and production volume at a reasonable level with an aim to balance its cash flow. Novus will reduce field operation costs by minimizing the costs for wells drilling and wells completion, and also will build up and utilise the infrastructure and facilities so as to cut down labour cost of contract miners.

Refined Oil Trading Business

Total sales volume of refined oil trading business in Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") hit a record in 2014 with profit target met successfully. In 2014, sales volume of refined oil exceeded 2.6 million tonnes, representing an increase of 410,000 tonnes or 19% as compared with the previous year; revenue of refined oil trading was RMB17.2 billion, representing an increase of RMB2.1 billion or 14% as compared with the previous year, while total profit after tax was RMB61.19 million.

Having been affected by the slump in international crude oil price, refined oil price in China remained at a low level. Under such circumstances, the Company has conducted a number of counter measures, such as planning to fully utilised storage capacity as well as expanding oil sources and customer base in order to boost the sale and maximise the profit.

The construction of Xingang sub-pipeline under the Lanzhou-Zhengzhou-Changsha refined oil pipeline has completed 95% with the construction of main body of departure station, terminal station, pipelines and two valve chambers being completed. The remaining works were pipelines connection at departure station, busbar connection for high and low voltage power supply, commissioning of equipment and facilities set up at interim stations and control rooms and commissioning of equipment and facilities set up at control room of terminal station. Also, most of the government approvals have been completed and obtained and Xingang sub-pipeline project is planned to commence operation in 2015.

Exploration Works

In 2014, BGP Inc., China National Petroleum Corporation ("BGP") was commissioned by the Company to conduct data processing and findings in relation to 197-kilometer 2D seismic exploration for the southeast of the Oilfield Block 2104 in Madagascar. The report on the findings of the project has been verified and accepted by experts. The combined findings on nine structural traps show there is an area of approximately 2,313 square kilometers of accumulated stratigraphic traps. It is considered a favourable gas and oil bearing area due to combination of source, reservoir and caprock favourable to form gas and oil belt. The Company will continue to strengthen the integrated geological research on the oilfield block in order to plan the next step exploration works.

Besides, the Oilfield Block 3113 Management Committee has authorized 延長國際勘探開發工程有限公司 to act as the operator responsible for the 2D seismic data collection covered 470 kilometers in the Oilfield Block 3113 in Madagascar. In addition, the committee has entered into an agreement with BGP in relation to 2D seismic data collection which is expected to be completed in the middle of 2015.

The Company has obtained the preliminary approval for extension of exploration period of the two oilfield blocks by Office Des Mines Nationales Et Des Industries Strategiques ("OMNIS") of Madagascar. The follow-up exploration plan and budget should be submitted to the government and the official approval for extension of exploration period is expected to be obtained from the government of Madagascar by November 2015.

OUTLOOK

Due to the sharp decline in international crude oil price, 2015 will be a very difficult year. The Company will continue to develop Novus in Canada; make progress with the 2D seismic exploration and the extension of exploration period for the oilfield blocks in Madagascar; facilitate the operation of pipelines for refined oil of Henan Yanchang; and acquire in-production oil and gas projects overseas, seeking to increase oil and gas production volume of the Company to a new level.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on financial results

	2014 HK$'000	2013 HK$'000	Change in %
Turnover	**22,346,997**	19,354,899	15%
Other revenue	**20,429**	16,365	25%
Purchases	**(21,385,786)**	(19,202,100)	11%
Royalties	**(88,022)**	–	N/A
Field operation	**(111,985)**	–	N/A
Exploration and evaluation expenses	**(4,163)**	–	N/A
Selling and distribution expenses	**(48,839)**	(2,171)	2,150%
Administrative expenses	**(127,069)**	(61,733)	106%
Depreciation, depletion and amortisation	**(300,158)**	(6,370)	4,612%
Other gains and losses	**(4,878,047)**	1,226	N/A
Finance costs	**(45,038)**	(22,008)	105%
Taxation	**(36,744)**	(25,274)	45%
(Loss)/profit for the year	**(4,658,425)**	52,834	N/A
Basic (loss)/earnings per share, HK cents	**(39.08)**	0.38	N/A

Turnover and segment results

For the year under review, the Group's operating segments comprised of: (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2014, the Group's turnover was derived from the production of crude oil and gas in Canada and trading of refined oil in the PRC.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Turnover and segment results *(Continued)*

The acquisition of Novus was completed on 20 January 2014. Novus is engaged in acquisition, exploration, development and production of petroleum and natural gas reserves in Canada. During the year ended 31 December 2014, Novus achieved production of crude oil and gas close to 1,500,000 BOE with sales of HK$816,425,000 being consolidated to the Group and contributed operating profit of HK$163,821,000 to the exploration, exploitation and operation business segment.

During the year ended 31 December 2014, the revenue of trading of refined oil business increased by 11% from the last year of HK$19,354,899,000 to HK$21,530,572,000. Henan Yanchang achieved sales of refined oil over 2,600,000 tonnes for the year and contributed operating profit of HK$76,614,000 to the supply and procurement business segment.

Other revenue

Apart from the aforesaid segment profits, other revenue of HK$20,429,000 recorded for the year, increased by HK$4,064,000 from HK$16,365,000 of the last year, which mainly represented interest income from bank deposits and rental income from properties situated in the PRC.

Purchases

Purchases, increased from last year of HK$19,202,100,000 to HK$21,385,786,000, were wholly derived from the trading of refined oil business under Henan Yanchang.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and gas production in Canada, amounted to HK$88,022,000 during the year ended 31 December 2014.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Field operation

The amount of HK$111,985,000, included labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers, incurred by Novus on producing crude oil and gas in Canada.

Exploration and evaluation expenses

The amount of HK$4,163,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and distribution expenses

Selling and distribution expenses increased from the last year of HK$2,171,000 to the current year of HK$48,839,000 mainly attributable to the inclusion of transportation costs of HK$45,859,000 incurred by Novus during the year.

Administrative expenses

Administrative expenses included Directors' remuneration, staff costs, office rentals, professional fees, listing fee and etc. The increase of HK$65,336,000 in administrative expenses was mainly attributable to the inclusion of administrative expenses incurred by Novus during the year and the balance payments of professional fees incurred for the acquisition of Novus.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the last year of HK$6,370,000 to the current year of HK$300,158,000 which was mainly due to the inclusion of depreciation and depletion of oil and gas properties provided by Novus during the year.

Other gains and losses

The amount represented the one-off and non-cash assets valuation impairment made on the two oilfield blocks in Madagascar and some other oil related assets of the Group totally HK$4,921,058,000 as well as written off of expired exploration and evaluation assets of HK$2,371,000, after offsetting the gain on hedging of oil and gas commodity contracts of HK$25,563,000, fair value gain on investment properties of HK$1,099,000, the net exchange gain of HK$15,156,000, gain on disposal of property, plant and equipment and exploration and evaluation assets of HK$2,144,000, and gain on bargain purchase of Novus of HK$1,420,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Finance costs

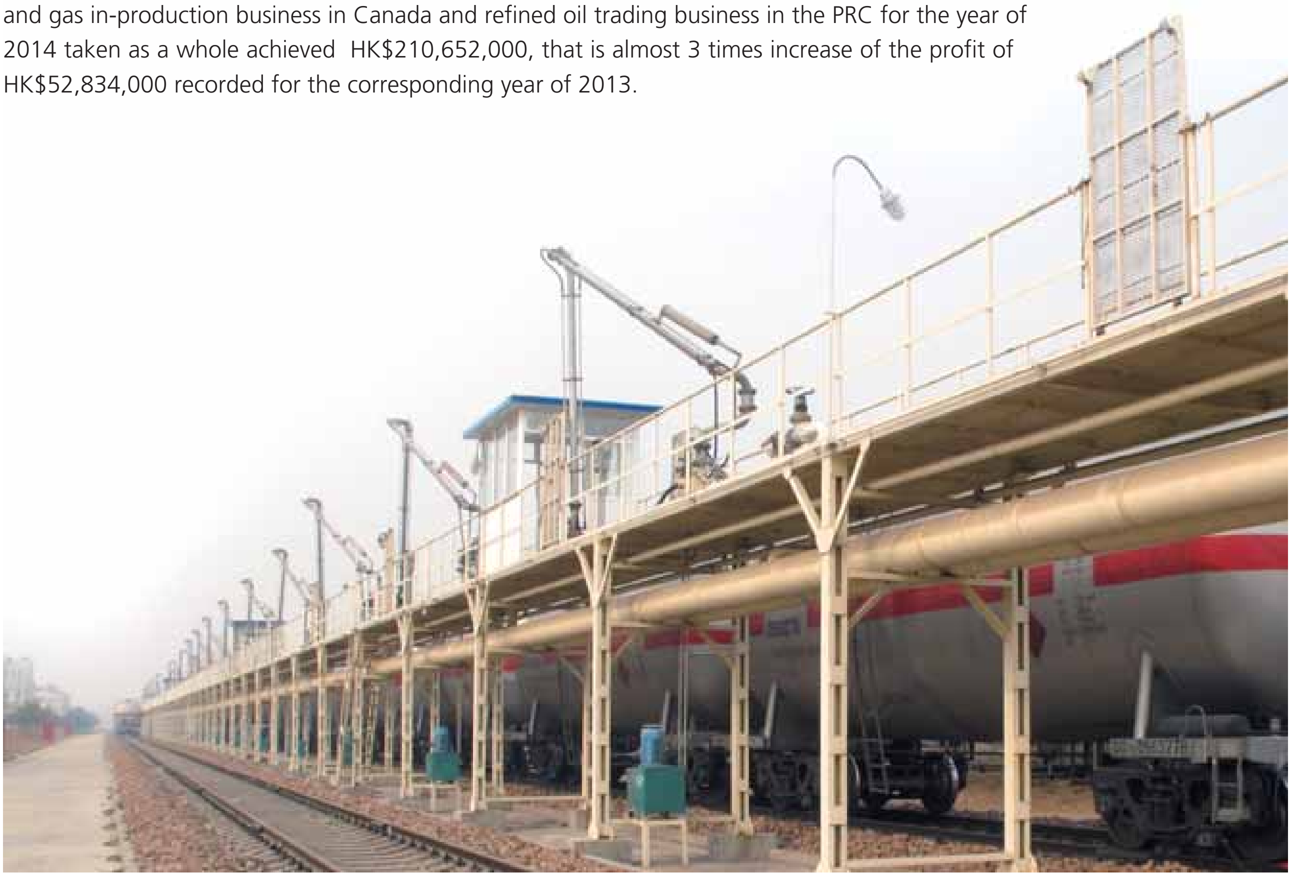
Finance costs amounted to HK$45,038,000 comprised of (i) borrowing costs of HK$36,367,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$3,205,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) non-cash imputed interest on convertible bond of HK$5,466,000 arisen from the issuance of a 3-year HK$1.6 billion non-interest bearing convertible bond used to finance for the acquisition of Novus, which was then converted into shares of the Company during the year.

Taxation

Taxation included (i) provision for Saskatchewan resource surcharge on Novus's production revenue of oil and gas amounted to HK$13,075,000, and (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$25,837,000, after offsetting net deferred tax income amounted to HK$2,168,000.

(Loss)/profit for the year

Despite the impact of the one-off and non-cash asset valuation impairment loss amounted to HK$4,921,058,000 in total and the related reversal of deferred tax liability of HK$51,981,000, the profit attributable to the Group's oil and gas in-production business in Canada and refined oil trading business in the PRC for the year of 2014 taken as a whole achieved HK$210,652,000, that is almost 3 times increase of the profit of HK$52,834,000 recorded for the corresponding year of 2013.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial position

	2014 HK$'000	2013 HK$'000	Change in %
Property, plant and equipment	**2,927,654**	171,102	1,611%
Prepaid lease payments	**19,935**	20,962	(5%)
Investment properties	**29,663**	29,099	2%
Intangible assets	**78,543**	293,120	(73%)
Exploration and evaluation assets	**4,165,163**	8,584,612	(51%)
Available-for-sale investment	**–**	196,072	N/A
Goodwill	**51,418**	51,418	0%
Inventories	**60,859**	28,106	117%
Trade receivables	**209,399**	–	N/A
Prepayments, deposits and other receivables	**151,795**	130,790	16%
Derivative financial instruments	**18,687**	–	N/A
Cash and bank balances	**575,602**	848,460	(32%)
Trade and other payables	**474,057**	153,197	209%
Bank borrowings	**928,118**	320,000	190%
Decommissioning liabilities	**111,227**	–	N/A

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress. The increase for the year was mainly attributable to the acquisition of Novus in Canada and the costs incurred for pipeline construction work in Henan, the PRC.

Prepaid lease payments

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

Investment properties

Investment properties comprised of (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 increased slightly due to the fair value gain of the properties both in the PRC and Madagascar during the year.

Intangible assets

Intangible assets amounted to HK$78,543,000 as at 31 December 2014 represented the valuation and recognition of a supply agreement signed with Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") which enables Henan Yanchang to have stable and sufficient supply of refined oil in the PRC. The decrease of HK$214,577,000 was mainly attributable to the one-off and non-cash valuation impairment during the year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Exploration and evaluation assets

Exploration and evaluation assets represented (i) the valuation of the Group's investment in the Oilfield Blocks 2104 and 3113 in Madagascar, (ii) the exploration costs put into the Oilfield Blocks 2104 and 3113 during the years, and (iii) the additions of the undeveloped land through the acquisition of Novus. The decrease of such assets was mainly attributable to the one-off and non-cash valuation impairment of HK$4,517,062,000 recognised on the Oilfield Blocks 2104 and 3113 during the year in the light of current low international crude oil price.

Available-for-sale investment

Available-for-sale investment represented the 21% equity interests in Gold Grand Investment Limited ("Gold Grand") held by the Group, a company has a freehold land in Madagascar and also has the right to the development of industrial park as well as the provision of processing, production and sales of relevant energy and utilities businesses in Madagascar. The amount of investment in Gold Grand was fully impaired during the year under review.

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 2014.

Inventories

Inventories represented refined oil held in oil storage tanks of Henan Yanchang in Henan, the PRC as at 31 December 2014.

Trade receivables

Trade receivables represented account receivables from customers of oil and gas production business from Novus in Canada and from customers of refined oil trading business from Henan Yanchang in the PRC as at 31 December 2014.

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 Oilfield Block 3113 Management Committee for the development of the Oilfield Block 3113.

Derivative financial instruments

The amount represented the fair value of a commodity contract entered by Novus to hedge the price risk of crude oil and gas business.

FINANCIAL REVIEW *(Continued)*

Cash and bank balances

As at 31 December 2014, cash and bank balances decreased by HK$272,858,000 and maintained at HK$575,602,000 as compared to the last year of HK$848,460,000.

Trade and other payables

Trade and other payables increased by HK$320,860,000 was mainly due to the increase in trade payables for refined oil trading business from Henan Yanchang and the inclusion of trade and other payables of Novus as at 31 December 2014.

Bank borrowings

There was significant increase in bank loans due to the acquisition of Novus during the year. The bank loans from banks of Canada and the PRC were used to finance the oil and gas production business in Canada and refined oil trading business in the PRC respectively.

Decommissioning liabilities

The amount represented the expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation in Canada incurred by Novus.

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by bank borrowings together with its internal resources for the year ended 31 December 2014.

	2014 **HK$'000**	2013 HK$'000
Current assets	**1,018,410**	1,007,356
Total assets	**8,290,786**	10,353,741
Current liabilities	**1,402,175**	481,831
Total liabilities	**1,704,876**	567,391
Total equity	**6,585,910**	9,786,350
Gearing ratio	**25.9%**	5.8%
Current ratio	**72.6%**	209.1%

LIQUIDITY AND FINANCIAL RESOURCES *(Continued)*

The Group had outstanding variable rate bank borrowings amounted to HK$928,118,000 (31 December 2013: HK$320,000,000) comprised of (i) RMB160 million (equivalent to HK$199,664,000) under Henan Yanchang and (ii) CAD109.05 million (equivalent to HK$728,454,000) under Novus as at 31 December 2014. The Group has obtained bank facilities of RMB1,300 million (equivalent to HK$1,622,270,000) from banks in the PRC and of CAD130 million (equivalent to HK$868,400,000) from a bank in Canada. As at 31 December 2014, the Group has cash and bank balances of HK$575,602,000 (31 December 2013: HK$848,460,000). In view of ample cash on hand together with the available bank facilities, the Group has sufficient working capital to finance its business operation.

As at 31 December 2014, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, remained healthy in a ratio of 25.9% (31 December 2013: 5.8%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 72.6% as at 31 December 2014 (31 December 2013: 209.1%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. As at 31 December 2014, Novus has entered a commodity contract for crude oil and gas business to manage its price risk.

TREASURY MANAGEMENT AND POLICIES

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, Canadian 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, Canadian 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 ACQUISITION AND DISPOSAL

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 CAD232,450,000 (equivalent to HK$1,643,492,000), 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) Co. Limited ("Yanchang Petroleum HK"), 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.

MATERIAL ACQUISITION AND DISPOSAL *(Continued)*

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 aforesaid, the Group had no other material acquisition and disposal for the year ended 31 December 2014.

SIGNIFICANT INVESTMENT

Save as holding 21% equity interests in Gold Grand, the Group did not hold any other significant investments during the year ended 31 December 2014.

CAPITAL COMMITMENT

As at 31 December 2014, the Group had committed to property, plant and equipment amounted to HK$24,991,000 (31 December 2013: HK$79,344,000) as well as exploration and evaluation cost amounted to HK$1,974,000 (31 December 2013: Nil).

Save as aforesaid, the Group did not have any other material commitments as at 31 December 2014.

PLEDGE OF ASSETS

The Group's CAD130 million revolving operating demand loan, available to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured by a general assignment of book debts and a CAD200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request.

Save as aforesaid, none of the Group's other assets had been pledged for granting the bank borrowings (31 December 2013: Nil).

CONTINGENT LIABILITY

As at 31 December 2014, the Group did not have any significant contingent liabilities (31 December 2013: Nil).

LITIGATION

As at 31 December 2014, the Group had no material litigation.

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2014, the Group's total number of staff was 132 (2013: 90). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2014 amounted to HK$42,637,000 (2013: HK$12,830,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice and 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 employees. No share options were granted to the eligible participants under the Company's share option scheme during the year ended 31 December 2014 (31 December 2013: Nil).

SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A. INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES

The Group has adopted the Canadian Oil and Gas Evaluation Handbook (COGEH) prepared jointly by the Society of Petroleum Evaluation Engineers (Calgary Chapter) and the Canadian Institute of Mining, Metallurgy & Petroleum (Petroleum Society) in reserves estimation that are consistent with the standards of National Instrument 51-101. Reserves are determined through analysis of geological and engineering data which appear, with reasonable certainty, to be economically producible in the future from known and discovered oil and natural gas reservoirs under existing economic conditions, operating methods and government regulation.

Reported total reserves are estimated by deterministic or probabilistic methods with the following levels of certainty under a specific set of economic conditions:

a. There is a 90% probability that at least the estimated proved reserves will be recovered.

b. There is a 50% probability that at least the sum of the estimated proved reserves plus probable reserves will be recovered.

A quantitative measure of the probability associated with a reserves estimate is generated only when a probabilistic estimate is conducted. The majority of reserves estimates is performed using deterministic methods that do not provide a quantitative measure of probability.

The Group engaged an independent third party consulting firm, Sproule Associates Limited, to evaluate the Group's estimation on proved and probable reserves as at 31 December 2014 and its opinion that the reserve estimates are reasonable.

SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

A. INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES *(Continued)*

The following table sets out the estimates of the Group's net interest reserves.

	Canada		
Net proved reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2014	–	–	–
Acquisition of Novus	12,115.2	13,552.8	14,374.0
Acquisition	1,447.2	1,255.0	1,656.4
Production	(1,284.6)	(1,203.8)	(1,485.2)
Discoveries & revisions	7.2	520.0	93.8
At 31 December 2014	12,285.0	14,124.0	14,639.0

	Canada		
Net probable reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2014	–	–	–
Acquisition of Novus	6,268.6	6,247.0	7,309.8
Acquisition	1,491.0	781.0	1,621.2
Discoveries & revisions	(1,291.8)	647.0	(1,184.0)
At 31 December 2014	6,467.8	7,675.0	7,747.0

	Canada		
Net proved plus probable reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2014	–	–	–
Acquisition of Novus	18,383.8	19,799.8	21,683.8
Acquisition	2,938.2	2,036.0	3,277.6
Production	(1,284.6)	(1,203.8)	(1,485.2)
Discoveries & revisions	(1,284.6)	1,167.0	(1,090.2)
At 31 December 2014	18,752.8	21,799.0	22,386.0

Notes:

1. Boe is calculated using a conversion ratio of 6 Mcf/bbl.

2. The Group's net interest reserves represent the Group's working interests excluding interests owned by others in Canada.

3. boe = barrels of oil equivalent
   bbl = barrels
   Mbbl = thousand barrels
   Mcf = thousand cubic feet
   MMcf = million cubic feet

SUPPLEMENTARY INFORMATION ON OIL AND GAS EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarised the major exploration, development and production activities during the reporting period:

	Canada	**Madagascar**
Exploration activities:	5,400 hectares unproved land acquired	197 kilometers 2D seismic data collection in Oilfield Block 2104
Development activities:	105 wells drilled 105 wells completed	Nil
Production activities:	Average daily net production Oil: 3,712 bbl Gas: 3,260 mcf	Nil

C. GROUP'S SHARE OF COSTS INCURRED ON EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2014:

	Canada HK$'000	**Madagascar** HK$'000	**Total** HK$'000
Exploration costs	16,805	32,449	49,254
Developments costs	650,692	–	650,692
Production costs *(note)*	111,985	–	111,985

Note: Production costs excluding depletion, depreciation and amortisation, government tax and selling expenses.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Zhang Kaiyong

Aged 49, 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 the indirect wholly-owned subsidiaries of the Company, Yanchang International (Canada) Limited ("YC Canada") and Novus. Save as aforesaid, Mr. Zhang did not hold any directorship in other listed companies during the past three years.

Mr. Ren Yansheng

Aged 49, 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 YC Canada and Novus. Mr. Ren has been appointed as the chief executive officer of each of YC Canada and Novus on 30 August 2013 and 1 October 2014 respectively. Mr. Ren did not hold any directorship in other listed companies during the past three years.

During the year ended 31 December 2014, Mr. Ren has been provided quarter with monthly rental value increased from HK$35,000 to HK$36,000 with effect from 23 April 2014.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS *(Continued)*

Mr. Hui Bo

Aged 41, 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 延長石油集團財務中心證券部 (Securities Department of the Financial Centre of Yanchang Petroleum Group). Mr. Hui holds a bachelor's degree in computer profession 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 was then granted the e-commerce master's degree in the business school from University of Montreal, Canada, and has 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 the international and domestic securities markets. Mr. Hui is currently a director and/or legal representative 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 61, 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 58, 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 the 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 did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS *(Continued)*

Mr. Zhao Jie

Aged 42, was appointed as an executive Director on 22 August 2014. Mr. Zhao is currently the general manager of the product distribution company of Yanchang Petroleum Group and the chairman of 延長殼牌石油有限公司 (Yanchang Shell Petroleum Co., Limited). Mr. Zhao has attained more than 20 years working experience in large PRC state-owned energy corporations, including worked in different management positions within the respective group companies of China Petrochemical Corporation and China National Petroleum Corporation. Mr. Zhao is very familiar with the oil distribution business, has extensive experience in enterprise management in the petroleum industry and possesses innovative character. Mr. Zhao is also an economist. Mr. Zhao did not hold any directorship in other listed companies during the past three years.

Mr. Andres Pena Salceda

Aged 50, was appointed as an executive Director on 22 August 2014. Mr. Pena Salceda is currently the Group Vice President of Copower Enterprise Group Limited and the chairman of the Mexican Chamber of Commerce for Hong Kong and Macau. Mr. Pena Salceda had been the former Consul General of Mexico for Hong Kong and Macau (Acting), the former Deputy Consul General at Consulate General of Mexico Shanghai and the Chief of Staff to the Chief of Protocol of the Mexican Foreign Ministry, and so acquired extensive experience in international and political diplomacy. Mr. Pena Salceda obtained a Master degree in Public Policy from the National University of Singapore and a Bachelor of Arts degree in International Relations from the United States International University in San Diego, California, U.S. He is also a member of the Independence Power Producers Forum. Mr. Pena Salceda had obtained professional oil and gas trainings organized by the international oil and gas services corporations and possesses more than 20 years extensive experience in the areas of international business development, project management, strategic consulting and public relations. Mr. Pena Salceda did not hold any directorship in other listed companies during the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Wing Ka

Aged 45, 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). Save as 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 40, 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 12 years of corporate finance and accounting experience. Mr. Leung had been employed as the chief financial officer, company secretary and authorized representative of ZMFY Automobile Glass Services Limited ("ZMFY") (a company listed on the Stock Exchange) during the period from 1 October 2012 up to 17 February 2015. ZMFY is a company engaged in the sales and installation of automobile glasses in China. Save as aforesaid, Mr. Leung did not hold any directorship in other listed companies during the past three years.

Mr. Sun Liming

Aged 61, 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 57, 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 doctor's degree of Economics in 1995, and obtained his Doctor of Philosophy degree from The University of New England in 2001. Dr. Mu had acted as 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, a company listed on the Stock Exchange. Dr. Mu is now the assistant to the general manager of China Merchants Capital Limited and the general manager of the Fundraising and IR Department of China Merchants Capital Management (International) Limited. He is also currently the supervisor of each of the supervisory committee of 招商崑崙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.

COMPANY SECRETARY

Mr. Law Hing Lam

Aged 51, 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 is also currently the chief financial officer and the authorised representative of the Company, as well as the chief financial officer of each of YC Canada and Novus.

REPORT OF THE DIRECTORS

The directors of the Company (the "Director(s)") have pleasure in submitting their report together with the audited consolidated financial statements of the Company and of the Group for the year ended 31 December 2014.

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 consolidated 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 2014 is set out in Note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2014 and the state of affairs of the Company and of the Group at that date are set out in the consolidated financial statements on pages 41 to 44.

The Directors do not recommend the payment of any dividend in respect of the year (2013: Nil).

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December			9 months ended 31 December	12 months ended 31 March
	2014	2013	2012	2011	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Turnover	**22,346,997**	19,354,899	7,572,880	512,210	1,020,769
(Loss)/profit before taxation	**(4,621,681)**	78,108	(75,468)	(138,823)	25,335
Taxation	**(36,744)**	(25,274)	(1,785)	(5,465)	(2,322)
(Loss)/profit for the year/period	**(4,658,425)**	52,834	(77,253)	(144,288)	23,013
(Loss)/profit attributable to					
– Equity holders of the Company	**(4,634,817)**	30,920	(77,656)	(149,335)	23,013
– Non-controlling interests	**(23,608)**	21,914	403	5,047	–
	(4,658,425)	52,834	(77,253)	(144,288)	23,013

SUMMARY FINANCIAL INFORMATION *(Continued)*

Assets and liabilities

	At 31 December				At 31 March
	2014	2013	2012	2011	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**7,272,376**	9,346,385	9,303,904	9,193,510	8,534,034
Current assets	**1,018,410**	1,007,356	975,623	216,528	331,854
Total assets	**8,290,786**	10,353,741	10,279,527	9,410,038	8,865,888
Current liabilities	**(1,402,175)**	(481,831)	(491,922)	(358,251)	(104,521)
Non-current liabilities	**(302,701)**	(85,560)	(84,881)	(85,425)	(1,345)
Total liabilities	**(1,704,876)**	(567,391)	(576,803)	(443,676)	(105,866)
Total equity	**6,585,910**	9,786,350	9,702,724	8,966,362	8,760,022

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

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

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 32 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Company and of the Group during the year are set out in Note 33 to the consolidated 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, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

Neither the Company, nor any of its subsidiaries purchased, redeemed or sold any of the Company's listed securities during the year and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31 December 2014, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, amounted to HK$4,098,772,000. This amount included the Company's contributed surplus in the amount of HK$54,045,000 at 31 December 2014, which may only be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$6,400,774,000 at 31 December 2014, 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 85% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 45%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 91% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 29%.

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 44 to the consolidated financial statements.

PENSION SCHEMES AND COSTS

Details of the Group's pension schemes and costs charged to the consolidated statement of profit or loss and other comprehensive income for the year are set out in Note 39 to the consolidated financial statements.

At 31 December 2014, 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.

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)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Zhao Jie *(appointed on 22 August 2014)*
Mr. Andres Pena Salceda *(appointed on 22 August 2014)*
Mr. Yang Jie *(resigned on 22 August 2014)*
Mr. To Kwan *(resigned on 22 August 2014)*

Independent Non-executive Directors

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

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Zhao Jie and Mr. Andres Pena Salceda are subject to re-election at the forthcoming annual general meeting ("2015 AGM") of the Company.

Pursuant to Bye-law 87(1) of the Company's Bye-laws, Mr. Zhang Kaiyong, Mr. Shen Hao and Mr. Ng Wing Ka will retire by rotation and, being eligible, offer themselves for re-election at the 2015 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 Listing Rules on the Stock Exchange. The Company considers all of the independent non-executive Directors are independent.

DIRECTORS' BIOGRAPHIES

Biographical details of the Directors are set out on pages 17 to 20 of this annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for two years, 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 2015 AGM 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.

DIRECTORS' INTERESTS IN CONTRACTS

Save as disclosed in Notes 11 and 44 to the consolidated 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 2014, 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	0.002%
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%

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 2014, 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 32 to the consolidated financial statements.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2014, 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)*	Interest of controlled corporation	Long position	6,496,729,547	53.49%
Yanchang Petroleum HK *(Note)*	Directly beneficially owned	Long position	6,496,729,547	53.49%

Note: Yanchang Petroleum Group beneficially held these 6,496,729,547 Shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

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 2014.

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 new supply agreement dated 24 December 2013 (the "New 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 44 to the consolidated financial statements.

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

(1) The aggregate value of the continuing connected transactions contemplated under the New Supply Agreement for the year ended 31 December 2014 as indicated above did not exceed the 2014 annual cap amount of RMB18,000,000,000 (equivalent to approximately HK$22,537,800,000); 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 New Supply Agreement governing such transactions, which are fair and reasonable and in the interests of the shareholders of the Company 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.

MODEL CODE FOR SECURITIES TRANSACTIONS

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 have 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 2014.

REPORT OF THE DIRECTORS

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 30 to 38.

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 2015 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, 27 March 2015

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

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 2014, 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. Before the revision of the terms of the service contract as an independent non-executive Director for Mr. Ng Wing Ka ("Mr. Ng") on 1 April 2014, Mr. Ng 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. Pursuant to the revised terms of the said service contract, Mr. Ng was appointed as an independent non-executive Director for a term of two years commencing from 1 April 2014 but he is still subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company. The said code provision A.4.1 has been complied with since then.

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, Mr. Sun Liming was unable to attend the AGM of the Company held on 22 May 2014 due to other ad hoc engagements.

4. code provision E.1.2 of the CG Code provides that the chairman of the Board should invite the chairmen of the Audit, Remuneration, Nomination and any other committees (as appropriate) to attend the AGM. Mr. Sun Liming, who is the chairman of the Remuneration Committee of the Company, was unable to attend the AGM of the Company held on 22 May 2014 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 confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2014.

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 Kaiyong (Chairman), Mr. Ren Yansheng (Chief Executive Officer), Mr. Hui Bo (Vice President), Mr. Shen Hao, Mr. Feng Dawei, Mr. Zhao Jie and Mr. Andres Pena Salceda; 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 interest 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 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) Market Misconduct (including Inside Information Provisions under the SFO) and the related legal obligations of directors of listed issuers; and (ii) Connected Transactions under Chapter 14A 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 also appointed for a specific term for two years since 1 April 2014. 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 2014.

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 2014, the Audit Committee held two meetings. At the meetings, the committee reviewed the annual results for the year ended 31 December 2013 and the interim results for the period ended 30 June 2014 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 Remuneration 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 2014, the Remuneration Committee held two meetings. At the meetings, the committee reviewed and approved the existing remuneration package of all Directors and senior management, salary revision and project bonus proposal from management, proposed remuneration under the new service contracts for executive Directors and Independent non-executive Directors and proposed remuneration for two newly appointed executive Directors.

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 2014, the Nomination Committee held two meetings. At the meetings, 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 at the 2014 annual general meeting of the Company; approved the renewal of the service contracts for executive Directors and Independent non-executive Directors; proposed nomination of the two newly appointed executive Directors and the Board Diversity Policy.

Details of the Directors' attendance (either in person or by phone) at the Board meetings, Audit Committee meetings, Remuneration Committee meetings and Nomination Committee meeting held during the year ended 31 December 2014 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	6/10	–	–	–
Mr. Ren Yansheng	10/10	–	–	–
Mr. Hui Bo	10/10	–	2/2	2/2
Mr. Shen Hao	0/10	–	–	–
Mr. Feng Dawei	1/10	–	–	–
Mr. Zhao Jie *(appointed on 22 August 2014)*	0/3	–	–	–
Mr. Andres Pena Salceda *(appointed on 22 August 2014)*	0/3	–	–	–
Mr. Yang Jie *(resigned on 22 August 2014)*	0/7	–	–	–
Mr. To Kwan *(resigned on 22 August 2014)*	5/7	–	–	–
Independent Non-executive Directors:				
Mr. Ng Wing Ka	6/10	2/2	–	2/2
Mr. Leung Ting Yuk	6/10	2/2	2/2	–
Mr. Sun Liming	6/10	2/2	2/2	2/2
Dr. Mu Guodong	6/10	–	–	–

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK$1,511,000, of which HK$1,500,000 was incurred for audit service and HK$11,000 for taxation services.

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 chief financial officer 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 21 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 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 pages 39 to 40.

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 three (3) 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 controls 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, financial reporting 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

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 41 to 129, which comprise the consolidated and the company statements of financial position as at 31 December 2014, 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 2014, and of the Group's loss 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.

EMPHASIS OF MATTER

Without qualifying our opinion, we draw attention to Note 3 in the consolidated financial statements which indicates that the Group incurred a net loss of approximately HK$4,658,425,000 during the year ended 31 December 2014 and, as of that date, the Group's current liabilities exceeded its current assets by approximately HK$383,765,000. These conditions, along with other matters as set forth in Note 3 to the consolidated financial statements, indicate the existence of a material uncertainty that may cast significant doubt about the Group's ability to continue as a going concern.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Shek Lui
Practising Certificate Number: P05895

Hong Kong, 27 March 2015

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Revenue			
Turnover	8	22,346,997	19,354,899
Other revenue	8	20,429	16,365
		22,367,426	19,371,264
Expenses			
Purchases		(21,385,786)	(19,202,100)
Royalties		(88,022)	–
Field operation		(111,985)	–
Exploration and evaluation expenses		(4,163)	–
Selling and distribution expenses		(48,839)	(2,171)
Administrative expenses		(127,069)	(61,733)
Depreciation, depletion and amortisation		(300,158)	(6,370)
Other gains and losses	9	(4,878,047)	1,226
		(26,944,069)	(19,271,148)
(Loss)/profit from operating activities	10	(4,576,643)	100,116
Finance costs	13	(45,038)	(22,008)
(Loss)/profit before taxation		(4,621,681)	78,108
Taxation	14	(36,744)	(25,274)
(Loss)/profit for the year		(4,658,425)	52,834
Other comprehensive (loss)/income for the year, net of tax			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		(142,179)	9,630
Other comprehensive (loss)/income for the year, net of tax		(142,179)	9,630
Total comprehensive (loss)/income for the year, net of tax		(4,800,604)	62,464
(Loss)/profit attributable to:			
Owners of the Company		(4,634,817)	30,920
Non-controlling interests		(23,608)	21,914
		(4,658,425)	52,834
Total comprehensive (loss)/income attributable to:			
Owners of the Company		(4,773,595)	37,667
Non-controlling interests		(27,009)	24,797
		(4,800,604)	62,464
(Loss)/earnings per share attributable to owners of the Company	17		
Basic, HK cents		(39.08)	0.38
Diluted, HK cents		(39.08)	0.38

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	18	**2,927,654**	171,102
Prepaid lease payments	19	**19,935**	20,962
Investment properties	20	**29,663**	29,099
Intangible assets	21	**78,543**	293,120
Exploration and evaluation assets	22	**4,165,163**	8,584,612
Available-for-sale investment	23	**–**	196,072
Goodwill	24	**51,418**	51,418
		7,272,376	9,346,385
Current assets			
Inventories	27	**60,859**	28,106
Trade receivables	28	**209,399**	–
Prepayments, deposits and other receivables	29	**151,795**	130,790
Derivative financial instruments	30	**18,687**	–
Tax recoverable		**2,068**	–
Cash and bank balances	31	**575,602**	848,460
		1,018,410	1,007,356
Total assets		**8,290,786**	10,353,741
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	32	**242,911**	162,911
Reserves	33	**6,236,050**	9,483,765
Equity attributable to owners of the Company		**6,478,961**	9,646,676
Non-controlling interests		**106,949**	139,674
Total equity		**6,585,910**	9,786,350

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*34*	**474,057**	153,197
Tax payable		**–**	8,634
Bank borrowings	*35*	**928,118**	320,000
		1,402,175	481,831
Non-current liabilities			
Decommissioning liabilities	*36*	**111,227**	–
Deferred tax liabilities	*37*	**191,474**	85,560
		302,701	85,560
Total liabilities		**1,704,876**	567,391
Total equity and liabilities		**8,290,786**	10,353,741
Net current (liabilities)/assets		**(383,765)**	525,525
Total assets less current liabilities		**6,888,611**	9,871,910

Approved by the Board on 27 March 2015 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 2014

	Notes	2014 HK$'000	2013 HK$'000
ASSETS			
Non-current assets			
Interests in subsidiaries	25	6,173,933	6,339,900
Property, plant and equipment	18	156	98
		6,174,089	6,339,998
Current assets			
Prepayments and other receivables		492	1,400
Cash and bank balances		244,323	442,625
		244,815	444,025
Total assets		6,418,904	6,784,023
EQUITY			
Capital and reserves attributable to owners of the Company			
Share capital	32	242,911	162,911
Reserves	33	5,861,831	6,299,610
Total equity		6,104,742	6,462,521
LIABILITIES			
Current liabilities			
Amounts due to subsidiaries	25	311,089	311,094
Other payables		3,073	10,408
		314,162	321,502
Total liabilities		314,162	321,502
Total equity and liabilities		6,418,904	6,784,023
Net current (liabilities)/assets		(69,347)	122,523
Total assets less current liabilities		6,104,742	6,462,521

Approved by the Board on 27 March 2015 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 2014

	Attributable to owners of the Company													
		Reserves												
	Share capital	Share premium	Contributed surplus	Exchange reserve	Revaluation reserve	Reserve on acquisition of additional interests in a subsidiary	Share option reserve	Statutory reserve	Convertible bond reserve	Other reserve	Retained profits/ (accumulated losses)	Sub-total	Non-controlling interests	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
		(Note i)	*(Note ii)*		*(Note iii)*		*(Note iv)*	*(Note v)*		*(Note vi)*				
At 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 and 1 January 2014	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
Loss for the year	–	–	–	–	–	–	–	–	–	–	(4,634,817)	(4,634,817)	(23,608)	(4,658,425)
Other comprehensive loss for the year	–	–	–	(138,778)	–	–	–	–	–	–	–	(138,778)	(3,401)	(142,179)
Total comprehensive loss for the year	–	–	–	(138,778)	–	–	–	–	–	–	(4,634,817)	(4,773,595)	(27,009)	(4,800,604)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	–	(6,280)	(6,280)
Issuance of convertible bond	–	–	–	–	–	–	–	–	383,041	–	–	383,041	–	383,041
Deferred tax of convertible bond	–	–	–	–	–	–	–	–	(63,202)	–	–	(63,202)	–	(63,202)
Issuance of ordinary shares upon conversion of convertible bond	80,000	1,524,564	–	–	–	–	–	–	(319,839)	–	–	1,204,725	–	1,284,725
Net increase in other reserve	–	–	–	–	–	–	–	–	–	1,316	–	1,316	564	1,880
Transfer of reserve	–	–	–	–	–	–	–	7,646	–	–	(7,646)	–	–	–
At 31 December 2014	**242,911**	**8,163,833**	**3,156**	**(121,578)**	**385,259**	**2,285,265**	**–**	**16,172**	**–**	**2,857**	**(4,498,914)**	**6,236,050**	**106,949**	**6,585,910**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2014

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$6,400,774,000 (2013: HK$4,876,210,000); and (ii) special reserve of HK$1,763,059,000 (2013: 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 contributed 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 (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 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 32 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. For the year ended 31 December 2014, the Group contributed HK$1,316,000 (2013: HK$1,541,000) 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 2014

	Notes	2014 HK$'000	2013 HK$'000
Cash flows from operating activities			
(Loss)/profit before taxation		**(4,621,681)**	78,108
Adjustments for:			
Interest income		**(11,373)**	(13,794)
Depreciation and depletion of property, plant and equipment	*18*	**299,634**	5,835
Amortisation of prepaid lease payments		**524**	535
Fair value change on investment properties	*20*	**(1,099)**	6,331
(Gain)/loss on disposal of property, plant and equipment and exploration and evaluation assets		**(2,144)**	198
Written off of expired exploration and evaluation assets		**2,371**	–
Impairment loss of intangible assets	*21*	**207,924**	–
Impairment loss of exploration and evaluation assets	*22*	**4,517,062**	–
Impairment loss of available-for-sale investment	*23*	**196,072**	–
Net increase in other reserve		**1,880**	2,201
Net exchange gain		**(15,156)**	–
Fair value gain on derivative financial instruments		**(28,265)**	–
Gain on bargain purchase	*40*	**(1,420)**	–
Finance costs		**45,038**	22,008
Operating profit before working capital changes		**589,367**	101,422
Increase in trade receivables		**(103,155)**	–
(Increase)/decrease in inventories		**(33,570)**	50,185
(Increase)/decrease in prepayments, deposits and other receivables		**(15,841)**	140,878
Decrease in decommissioning liabilities		**(5,168)**	–
Increase/(decrease) in trade and other payables		**121,894**	(117,363)
Cash generated from operations		**553,527**	175,122
Interest received		**11,373**	13,794
Tax paid		**(49,083)**	(26,784)
Net cash generated from operating activities		**515,817**	162,132
Cash flows from investing activities			
Net cash outflow on acquisition of a subsidiary	*40*	**(1,643,492)**	–
Purchases of exploration and evaluation assets		**(35,974)**	–
Purchases of property, plant and equipment		**(650,127)**	(30,769)
Proceeds from disposal of property, plant and equipment and exploration and evaluation assets		**2,126**	13
Net cash used in investing activities		**(2,327,467)**	(30,756)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2014

	Notes	2014 HK$'000	2013 HK$'000
Cash flows from financing activities			
Proceeds from bank borrowings		1,191,665	383,310
Interest paid		(36,367)	(22,008)
Repayment of bank borrowings		(1,180,734)	(282,094)
Proceeds from issue of convertible bond		1,600,000	–
Dividend paid to a non-controlling shareholder		(3,140)	–
Capital injection by a non-controlling shareholder		–	18,961
Net cash generated from financing activities		1,571,424	98,169
Net (decrease)/increase in cash and cash equivalents		(240,226)	229,545
Cash and cash equivalents at the beginning of the year		848,460	634,146
Effect of exchange rate changes		(32,632)	(15,231)
Cash and cash equivalents at the end of the year		575,602	848,460
Analysis of balances of cash and cash equivalents			
Cash and bank balances		575,602	848,460

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

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. 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, sale 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 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 2014. A summary of the new HKFRSs are set out as below:

HKFRS 10, HKFRS 12 and HKAS 27 (Amendments)	Investment Entities
HKAS 32 (Amendments)	Financial Instruments: Presentation — Offsetting Financial Assets and Financial Liabilities
HKAS 39 (Amendments)	Financial Instruments: Recognition and Measurement — Novation of Derivatives and Continuation of Hedge Accounting
HK (IFRIC) — Int 21	Levies

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 27 — Investment Entities

The Group has applied the amendments to HKFRS 10, HKFRS 12 and HKAS 27 *Investment Entities* for the first time in the current year. 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 consolidated and separate 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 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.

As the Company is not an investment entity (assessed based on the criteria set out in HKFRS 10 as at 1 January 2014), the application of the amendments has had no impact on the disclosures or the amounts recognised in the Group's consolidated financial statements.

Amendments to HKAS 32 — Offsetting Financial Assets and Financial Liabilities

The Group has applied the amendments to HKAS 32 *Offsetting Financial Assets and Financial Liabilities* for the first time in the current year. The amendments to HKAS 32 clarify the requirements relating to the offset of financial assets and financial liabilities. Specifically, the amendments clarify the meaning of 'currently has a legally enforceable right of set-off' and 'simultaneous realisation and settlement'.

The amendments have been applied retrospectively. The Group has assessed whether certain of its financial assets and financial liabilities qualify for offset based on the criteria set out in the amendments and concluded that the application of the amendments has no material impact on the amounts recognised in the Group's consolidated financial statements.

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

The Group has applied the amendments to HKAS 39 *Novation of Derivatives and Continuation of Hedge Accounting* for the first time in the current year. The amendments to HKAS 39 provide relief from the requirement to discontinue hedge accounting when a derivative designated as a hedging instrument is novated under certain circumstances. The amendments also clarify that any change to the fair value of the derivative designated as a hedging instrument arising from the novation should be included in the assessment and measurement of hedge effectiveness.

The amendments have been applied retrospectively. As the Group does not have any derivatives that are subject to novation, the application of these amendments has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

HK (IFRIC) — Int 21-Levies

The Group has applied HK (IFRIC) — Int 21 *Levies* for the first time in the current year. HK (IFRIC) — Int 21 *Levies* addresses the issue as to when to recognise a liability to pay a levy imposed by a government. 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 the 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.

HK (IFRIC) — Int 21 has been applied retrospectively. The application of this interpretation has had no material impact on the disclosures or on the amounts recognised in the Group's consolidated financial statements.

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

HKFRSs (Amendments)	Annual Improvements to HKFRSs 2010–2012 Cycle[2]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2011–2013 Cycle[1]
HKFRSs (Amendments)	Annual Improvements to HKFRSs 2012–2014 Cycle[3]
HKFRS 9 (as revised in 2014)	Financial Instruments[6]
HKFRS 10 and HKAS 28 (Amendments)	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[3]
HKFRS 10, HKFRS 12 and HKAS 28 (Amendments)	Investment Entities: Applying the Consolidation Exception[3]
HKFRS 11 (Amendments)	Accounting for Acquisitions of Interests in Joint Operations[3]
HKFRS 14	Regulatory Deferral Accounts[4]
HKFRS 15	Revenue from Contracts with Customers[5]
HKAS 1 (Amendments)	Disclosure Initiative[3]
HKAS 19 (Amendments)	Defined Benefit Plans: Employees Contributions[1]
HKAS 27 (Amendments)	Equity Method in Separate Financial Statements[3]
HKAS 16 and HKAS 38 (Amendments)	Clarification of Acceptable Methods of Depreciation and Amortisation[3]
HKAS 16 and HKAS 41 (Amendments)	Agriculture: Bearer Plants[3]

[1] Effective for annual periods beginning on or after 1 July 2014

[2] Effective for annual periods beginning on or after 1 July 2014, with limited exceptions

[3] Effective for annual periods beginning on or after 1 January 2016

[4] Effective for first annual HKFRS financial statements beginning on or after 1 January 2016

[5] Effective for annual periods beginning on or after 1 January 2017

[6] Effective for annual periods beginning on or after 1 January 2018

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

31 December 2014

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

HKFRS 9 — Financial Instruments

HKFRS 9 issued in 2009 introduced new requirements for the classification and measurement of financial assets. HKFRS 9 was subsequently amended in 2010 to include requirements for the classification and measurement of financial liabilities and for derecognition, and further amended in 2013 to include the new requirements for general hedge accounting. Another revised version of HKFRS 9 was issued in 2014 mainly to include a) impairment requirements for financial assets and b) limited amendments to the classification and measurement requirements by introducing a 'fair value through other comprehensive income' (FVTOCI) measurement category for certain simple debt instruments.

Key requirements of HKFRS 9 are described below:

- All recognised financial assets that are within the scope of HKAS 39 *Financial Instruments: Recognition and Measurement* are 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 accounting periods. Debt instruments that are held within a business model whose objective is achieved both by collecting contractual cash flows and selling financial assets, and that have contractual terms of the financial asset give rise on specified dates to cash flows that are solely payments of principal and interest on the principal amount outstanding, are measured at FVTOCI. All other debt investments and equity investments are measured at their fair value 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. 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.

- In relation to the impairment of financial assets, HKFRS 9 requires an expected credit loss model, as opposed to an incurred credit loss model under HKAS 39. The expected credit loss model requires an entity to account for expected credit losses and changes in those expected credit losses at each reporting date to reflect changes in credit risk since initial recognition. In other words, it is no longer necessary for a credit event to have occurred before credit losses are recognised.

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

HKFRS 9 — Financial Instruments *(Continued)*

- The new general hedge accounting requirements retain the three types of hedge accounting. However, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components.

The Directors of the Company do not anticipate that the application of these amendments to HKFRS 9 will have a material impact on the Group's consolidated financial statements.

Amendments to HKFRS 10 and HKAS 28 — Sale or Contribution of Assets between an Investor and its Associate or Joint Venture

Amendments to HKAS 28:

- The requirements on gains and losses resulting from transactions between an entity and its associate or joint venture have been amended to relate only to assets that do not constitute a business.

- A new requirement has been introduced that gains or losses from downstream transactions involving assets that constitute a business between an entity and its associate or joint venture must be recognised in full in the investor's financial statements.

- A requirement has been added that an entity needs to consider whether assets that are sold or contributed in separate transactions constitute a business and should be accounted for as a single transaction.

Amendments to HKFRS 10:

- An exception from the general requirement of full gain or loss recognition has been introduced into HKFRS 10 for the loss control of a subsidiary that does not contain a business in a transaction with an associate or a joint venture that is accounted for using the equity method.

- New guidance has been introduced requiring that gains or losses resulting for those transactions are recognised in the parent's profit or loss only to the extent of the unrelated investors' interests in that associate or joint venture. Similarly, gains and losses resulting from the remeasurement at fair value of investments retained in any former subsidiary that has become an associate or a joint venture that is accounted for using the equity method are recognised in the former parent's profit or loss only to the extent of the unrelated investors' interests in the new associate or joint venture.

The Directors of the Company do not anticipate that the application of these amendments to HKFRS 10 and HKAS 28 will have a material impact on the Group's consolidated financial statements.

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

Amendments to HKFRS 10, HKFRS 12 and HKAS 28 — Investment Entities: Applying the Consolidation Exception

The narrow-scope amendments to HKFRS 10, HKFRS 12 and HKAS 28 introduce clarifications to the requirements when accounting for investment entities. The amendments also provide relief in particular circumstances, which will reduce the costs of applying the standards.

Amendments to HKFRS 11 — Accounting for Acquisitions of Interests in Joint Operations

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 *Business Combinations*. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

A joint operator is also required to disclose the relevant information required by HKFRS 3 and other standards for business combinations.

The amendments to HKFRS 11 apply prospectively for annual periods beginning on or after 1 January 2016. The Directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

HKFRS 14 — Regulatory Deferral Accounts

HKFRS 14 specifies the accounting for regulatory deferral account balances that arise from rate-regulated activities. The standard is applicable only to first-time adopters of HKFRSs who recognised regulatory deferral account balances under their previous GAAP. HKFRS 14 permits eligible first-time adopters of HKFRSs to continue their previous GAAP rate-regulated accounting policies, with limited changes, and requires separate presentation of regulatory deferral account balances in the statement of financial position and statement of profit or loss and other comprehensive income. Disclosure are also required to identify the nature of, and risks associated with, the form of rate regulation that has given rise to the recognition of regulatory deferral account balances.

HKFRS 14 is effective for an entity's first annual HKFRS financial statements for annual periods beginning on or after 1 January 2016, with earlier application permitted. The Directors of the Company do not anticipate that the application of these amendments to HKFRS 14 will have a material impact on the Group's consolidated financial statements.

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

HKFRS 15 — Revenue from Contracts with Customers

In July 2014, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

The core principle of HKFRS 15 is that an entity should recognise revenue to depict the transfer of promised goods or services to customers in an amount that reflects the consideration to which the entity expects to be entitled in exchange for those goods or services. Specifically, the standard introduces a 5-step approach to revenue recognition.

- Step 1: Identify the contract(s) with a customer
- Step 2: Identify the performance obligations in the contract
- Step 3: Determine the transaction price
- Step 4: Allocate the transaction price to the performance obligations in the contract
- Step 5: Recognise revenue when (or as) the satisfies a performance obligation

Under HKFRS 15, an entity recognises revenue when (or as) a performance obligation is satisfied, i.e. when 'control' of the goods or services underlying the particular performance obligation is transferred to the customer. Far more prescriptive guidance has been added in HKFRS 15 to deal with specific scenarios. Furthermore, extensive disclosures are required by HKFRS 15.

The Directors of the Company do not anticipate that the application of these amendments to HKFRS 15 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 — Presentation of Financial Statements

The amendments to HKAS 1 are designed to further encourage companies to apply professional judgement in determining what information to disclose in their financial statements. For example, the amendments make clear that materiality applies to the whole of financial statements and that the inclusion of immaterial information can inhibit the usefulness of financial disclosures. Furthermore, the amendments clarify that companies should use professional judgement in determining where and in what order information is presented in the financial disclosures.

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

Amendments to HKAS 19 — Defined Benefit Plans: Employees Contributions

The amendments to HKAS 19 clarify how an entity should account for contributions made by employees or third parties to defined benefit plans, based on whether those contributions are dependent on the number of years of service provided by the employee.

For contributions that are independent of the number of years of service, the entity may either recognise the contributions as a reduction of the service cost in the period in which the related service is rendered, or to attribute them to the employees' periods of service either using the projected unit credit method; whereas for contributions that are dependent on the number of years of service, the entity is required to attribute them to the employees' periods of service.

The Directors of the Company do not anticipate that the application of these amendments to HKAS 19 will have a significant impact on the Group's consolidated financial statements.

Amendments to HKAS 27 — Equity Method in Separate Financial Statements

The amendments allow an entity to account for investments in subsidiaries, joint ventures and associates in its separate financial statements

- at cost,
- in accordance with HKFRS 9 *Financial Instruments* (or HKAS 39 *Financial Instruments: Recognition and Measurement* for entities that have not yet adopted HKFRS 9), or
- using the equity method as described in HKAS 28 *Investments in Associates and Joint Ventures*.

The accounting option must be applied by category of investments.

The amendments also clarify that when a parent ceases to be an investment entity, or becomes an investment entity, it shall account for the change from the date when the change in status occurred.

In addition to the amendments to HKAS 27, there are consequential amendments to HKAS 28 to avoid a potential conflict with HKFRS 10 *Consolidated Financial Statements* and to HKFRS 1 *First-time Adoption of Hong Kong Financial Reporting Standards*.

The Directors of the Company do not anticipate that the application of these amendments to HKAS 27 will have a material impact on the Group's consolidated financial statements.

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

Amendments to HKAS 16 and HKAS 38 — Clarification of Acceptable Methods of Depreciation and Amortisation

The amendments to HKAS 16 prohibit entities from using a revenue-based depreciation method for items of property, plant and equipment. The amendments to HKAS 38 introduce a rebuttable presumption that revenue is not an appropriate basis for amortisation of an intangible asset. This presumption can only be rebutted in the following two limited circumstances:

a) when the intangible asset is expressed as a measure of revenue.

b) when it can be demonstrated that revenue and the consumption of the economic benefits of the intangible asset are highly correlated.

The amendments apply prospectively for annual periods beginning on or after 1 January 2016. The Directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 38 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 16 and HKAS 41 — Agriculture: Bearer Plants

The amendments to HKAS 16 and HKAS 41 define a bearer plant and require biological assets that meet the definition of a bearer plant to be accounted for as property, plant and equipment in accordance with HKAS 16, instead of HKAS 41. The produce growing on bearer plants continues to be accounted for in accordance with HKAS 41.

The Directors of the Company do not anticipate that the application of these amendments to HKAS 16 and HKAS 41 will have a material impact on the Group's consolidated financial statements as the Group is not engaged in agricultural activities.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

(a) 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 (the "Listing Rules") and by the disclosure requirements of the Hong Kong Companies Ordinance (Cap. 32).

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

(b) Basis of preparation

The consolidated financial statements have been prepared on the historical cost basis except for certain properties and 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.

The Group had incurred a net loss of approximately HK$4,658,425,000 for the year ended 31 December 2014 and, as of that date, the Group had net current liabilities of approximately HK$383,765,000. Notwithstanding the above results, the consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent upon the success of the Group's future operations and its ability to generate adequate cash flows in order to meet its obligations when they fall due.

The Group's net current liabilities as at 31 December 2014 were mainly arisen from the Canadian dollar denominated revolving operating demand loan as set out in Note 35 to the consolidated financial statements. In the opinion of the Directors of the Company, there were no indications that the bank would demand repayment within the next 12 months as the Group has not had any breach or default of bank covenants during the year. Moreover, the Group will have sufficient cash on hand to meet short-term obligations by actively monitoring its credit facilities and coordinating payment cycles with revenue cycles. Accordingly, the Directors of the Company considered that it is appropriate to prepare the consolidated financial statements on a going concern basis. Should the Group be unable to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and liabilities as current assets and liabilities respectively. The effects of these adjustments have not been reflected in the consolidated financial statements.

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

(c) 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.

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

(c) 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 or, when applicable, the cost on initial recognition of an investment in an associate or a jointly venture.

(d) 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, 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.

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

(d) 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.

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

(e) Goodwill

Goodwill arising on an acquisition of a business is carried at cost as established at the date of acquisition of the business 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.

(f) 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 of disposal 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.

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

(g) 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.

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

(h) 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.

Except for petroleum and natural gas properties, 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
Leasehold improvements	:	over the term of the lease

Petroleum and natural gas properties are depleted on an area-by-area basis using the unit-of-production method by reference to the ratio of production in the period to the related proved and probable reserves, taking into account estimated future development costs. Production and reserves of natural gas are converted to equivalent barrels of crude oil on the basis of six thousand cubic feet of gas to one barrel of oil. Changes in estimates used in prior periods, such as proved and probable reserves, that affect the unit-of-production calculations do not give rise to prior period adjustments and are dealt with on a prospective basis.

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.

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

(i) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. On initial recognition, investment properties are 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.

(j) 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 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 resource 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.

(k) 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.

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

(l) 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.

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

(m) 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.

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

(n) 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.

(o) 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.

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

(p) 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 profit or loss and other 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.

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.

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

(p) Taxation *(Continued)*

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.

(q) 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.

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

(r) 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 trade receivables, other receivables and cash and bank balances) are carried at amortised cost using the effective interest method, less any identified impairment losses.

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

(r) 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 reorganisation; 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 amount of the impairment loss recognised is 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.

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.

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

(r) Financial instruments *(Continued)*

Impairment of financial assets *(Continued)*

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 AFS 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 AFS 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.

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.

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

(r) Financial instruments *(Continued)*

Financial liabilities and equity instruments *(Continued)*

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.

Convertible bond

The component parts of compound instruments (convertible bond) issued by the Company are classified separately as financial liabilities and equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. Conversion option that will be settled by the exchange of a fixed amount of cash or another financial asset for a fixed number of the Company's own equity instruments is an equity instrument.

At the date of issue, the fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. This amount is recorded as a liability on an amortised cost basis using the effective interest method until extinguished upon conversion or at the instrument's maturity date.

The conversion option classified as equity is determined by deducting the amount of the liability component from the fair value of the compound instrument as a whole. This is recognised and included in equity, net of income tax effects, and is not subsequently remeasured. In addition, the conversion option classified as equity will remain in equity until the conversion option is exercised, in which case, the balance recognised in equity will be transferred to share premium. Where the conversion option remains unexercised at the maturity date of the convertible bond, the balance recognised in equity will be transferred to retained profits. No gain or loss is recognised in profit or loss upon conversion or expiration of the conversion option.

Transaction costs that relate to the issue of the convertible bond are allocated to the liability and equity components in proportion to the allocation of the gross proceeds. Transaction costs relating to the equity component are recognised directly in equity. Transaction costs relating to the liability component are included in the carrying amount of the liability component and are amortised over the lives of the convertible bond using the effective interest method.

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

(r) Financial instruments *(Continued)*

Derivative financial instruments

Derivatives are initially recognised at fair value at the date when derivative contracts are entered into and are subsequently remeasured to their fair value at the end of the reporting period. The resulting gain or loss is recognised in profit or loss immediately unless the derivative is designated and effective as a hedging instrument, in which case the timing of the recognition in profit or loss depends on the nature of the hedge relationship.

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group continues to recognise the asset to the extent of its continuing involvement and recognises an associated liability. If the Group retains substantially all the risks and rewards of ownership of a transferred financial asset, the Group continues to recognise the financial asset and also recognises a collateralized borrowing for the proceeds received.

On derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognised in other comprehensive income and accumulated in equity is recognised in profit or loss.

On derecognition of a financial asset other than in its entirety, the Group allocates the previous carrying amount of the financial asset between the part it continues to recognise, and the part it no longer recognises on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognised and the sum of the consideration received for the part no longer recognised and any cumulative gain or loss allocated to it that had been recognised in other comprehensive income is recognised in profit or loss. A cumulative gain or loss that had been recognised in other comprehensive income is allocated between the part that continues to be recognised and the part that is no longer recognised on the basis of the relative fair values of those parts.

The Group derecognises financial liabilities when, and only when, the Group's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognised and the consideration paid and payable 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.

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

(s) Jointly controlled operation

A joint operation is a joint arrangement whereby the parties that have joint control of the arrangement have rights to the assets, and obligations for the liabilities, relating to the joint arrangement. Joint control is the contractually agreed sharing of control of an arrangement, which exists only when decisions about the relevant activities require unanimous consent of the parties sharing control.

When a group entity undertakes its activities under joint operations, the Group as a joint operator recognises in relation to its interest in a joint operation:

- its assets, including its share of any assets held jointly;
- its liabilities, including its share of any liabilities incurred jointly;
- its revenue from the sale of its share of the output arising from the joint operation;
- its share of the revenue from the sale of the output by the joint operation; and
- its expenses, including its share of any expenses incurred jointly.

The Group accounts for the assets, liabilities, revenues and expenses relating to its interest in a joint operation in accordance with the HKFRSs applicable to the particular assets, liabilities, revenues and expenses.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a sale or contribution of assets), the Group is considered to be conducting the transaction with the other parties to the joint operation, and gains and losses resulting from the transactions are recognised in the Group's consolidated financial statements only to the extent of other parties' interests in the joint operation.

When a group entity transacts with a joint operation in which a group entity is a joint operator (such as a purchase of assets), the Group does not recognise its share of the gains and losses until it resells those assets to a third party.

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

(t) 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.

Decommissioning liabilities

Decommissioning liabilities are recognised for decommissioning and restoration obligations associated with the Company's exploration and evaluation assets and property and equipment. The best estimate of the expenditure required to settle the present obligation at the statement of financial position date is recorded on a discounted basis using the pre-tax risk-free interest rate. The future cash flow estimates are adjusted to reflect the risks specific to the liability. The value of the obligation is added to the carrying amount of the associated exploration and evaluation or property and equipment asset and is depleted or amortised over the useful life of the asset. The provision is accreted over time through charges to finance costs with actual expenditures charged against the accumulated obligation. Changes in the future cash flow estimates resulting from revisions to the estimated timing or amount of undiscounted cash flows or the discount rate are recognised as changes in the decommissioning provision and related asset. Actual decommissioning expenditures up to the recorded liability at the time are charged against the provision as the costs are incurred. Any differences between the recorded provision and the actual costs incurred is recorded as a gain or loss on asset derecognition.

(u) 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.

(v) 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.

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

(w) 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.

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

(x) 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.

(y) 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.

(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 oil and natural gas prices 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 capitalisation rate.

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

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

(c) Fair value of investment properties *(Continued)*

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.

(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 HK$78,543,000 (2013: HK$293,120,000) and impairment loss of HK$207,924,000 was recognised for the year (2013: Nil). 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 year, no impairments on inventories were made (2013: Nil).

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

(g) Depletion and impairment of petroleum and natural gas properties

The amounts recorded for depletion and impairment of petroleum and natural gas properties are based on estimates. These estimates include proved and probable reserves, production rates, future petroleum and natural gas prices, future development costs, remaining lives and periods of future benefits of the related assets and other relevant assumptions.

The Group's reserve estimates are evaluated annually pursuant to the parameters and guidelines stipulated under the Canadian Oil and Gas Evaluation Handbook ("COGEH"). Changes in reserve estimates impact the financial results of the Group as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The decision to transfer exploration and evaluation assets to petroleum and natural gas properties is based on the estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

For impairment testing, petroleum and natural gas properties are aggregated into cash-generating units, based on management's judgment in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash flows from other assets or groups of assets. Cash-generating units are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate company and industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

(h) Decommissioning liabilities

The provision for decommissioning liabilities depends on estimates of current risk free interest rates, future restoration and reclamation expenditures and the timing of those expenditures.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

The Group

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)		
— Trade receivables *(Note 28)*	209,399	–
— Other receivables *(Note 29)*	16,295	334
— Cash and bank balances	575,602	848,460
	801,296	848,794
Available-for-sale investment *(Note 23)*	–	196,072
Derivative financial instruments *(Note 30)*	18,687	–
	819,983	1,044,866
Financial liabilities		
Amortised costs		
— Trade and other payables *(Note 34)*	394,351	27,581
— Bank borrowings *(Note 35)*	928,118	320,000
— Decommissioning liabilities *(Note 36)*	111,227	–
	1,433,696	347,581

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

(a) Categories of financial instruments *(Continued)*

The Company

	2014 HK$'000	2013 HK$'000
Financial assets		
Loans and receivables		
(including cash and bank balances)		
— Amounts due from subsidiaries *(Note 25)*	**3,442,336**	1,742,809
— Cash and bank balances	**244,323**	442,625
	3,686,659	2,185,434
Financial liabilities		
Amortised costs		
— Amounts due to subsidiaries *(Note 25)*	**311,089**	311,094
— Other payables	**3,073**	10,408
	314,162	321,502

(b) Financial risk management objectives and policies

The Group's financial instruments include derivative financial instruments, available-for-sale investment, trade and other receivables, cash and bank balances, trade and other payables, bank borrowings and decommissioning liabilities. The Company's financial instruments include amounts due from/to subsidiaries, cash and bank balances and other payables. 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.

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

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

Market risk

The Group's activities expose primarily to the financial risks of changes in foreign exchange risk, interest rate risk and commodity price 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, Canada, the PRC and Madagascar and is exposed to foreign exchange risk arising from various currency exposures, primarily with respect to US dollars, Canadian dollars ("CAD"), Renminbi ("RMB") and Malagasy Ariary ("AR"). 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 35). 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 for the Group's RMB denominated borrowings and by the National Bank of Canada for the Group's CAD denominated borrowings.

Sensitivity analysis

The sensitivity analysis 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 loss for the year would increase/decrease by approximately HK$8,557,000 (2013: pre-tax profit would increase/decrease by approximately HK$5,285,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

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

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

Market risk *(Continued)*

(iii) Commodity price risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices.

Sensitivity analysis

A CAD5,000/bbl (equivalent to HK$34,000/bbl) increase/decrease in the referenced crude oil prices would decrease/increase the Group's net profit by HK$2,275,000.

Credit risk

The carrying amounts of trade and 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 Canada and 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.

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

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

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.

As mentioned in Note 3(b), the Group considered that (i) there were no indications that the bank would demand repayment within the next 12 months as it has not had any breach or default of bank covenants during the year and (ii) it will have sufficient cash on hand to meet short-term obligations by actively monitoring its credit facilities and coordinating payment cycles with revenue cycles. The Directors of the Company are of the opinion that it has been enabling the Group to mitigate its liquidity risk.

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 2014						
Non-derivative financial liabilities						
Trade and other payables	–	394,351	–	–	394,351	394,351
Bank borrowings	4.03	937,530	–	–	937,530	928,118
Decommissioning liabilities	3.25	174,175	–	–	174,175	111,227
		1,506,056	–	–	1,506,056	1,433,696
31 December 2013						
Non-derivative financial liabilities						
Trade and other payables	–	27,581	–	–	27,581	27,581
Bank borrowings	6.00	325,961	–	–	325,961	320,000
		353,542	–	–	353,542	347,581

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 2014						
Non-derivative financial liabilities						
Amounts due to subsidiaries	–	311,089	–	–	311,089	311,089
Other payables	–	3,073	–	–	3,073	3,073
		314,162	–	–	314,162	314,162
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

(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).

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

(c) Fair value estimation *(Continued)*

Fair value of the Group's financial assets and liabilities that are measured at fair value on a recurring basis

Derivative financial instruments are measured at fair value at the end of each reporting period. The following table gives information about how the fair values of these financial instruments are determined.

Financial assets	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs
	2014 HK$'000	2013 HK$'000		
Derivative financial instruments	**18,687**	–	Level 2	Crude oil price in active market

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

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, decommissioning liabilities and bank borrowings) and total equity.

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 years ended 31 December 2014 and 2013, the Group's strategy was to maintain a low gearing ratio. The gearing ratio at 31 December 2014 and 2013 were as follows:

	2014 HK$'000	2013 HK$'000
Total liabilities	**1,704,876**	567,391
Total equity	**6,585,910**	9,786,350
Gearing ratio	**25.9%**	5.8%

7. SEGMENT INFORMATION

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

(a) the exploration, exploitation and operation business segment involves oil and gas exploration, exploitation, sale and operation; and

(b) the supply and procurement business segment involves storage, transportation, trading and distribution of oil related products.

Segment revenue and results

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2014 HK$'000	2013 HK$'000	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Segment revenue:						
Sales to external customers	**816,425**	–	**21,530,572**	19,354,899	**22,346,997**	19,354,899
Segment results	**247,797**	(2,936)	**108,225**	121,144	**356,022**	118,208
Other revenue					**20,429**	16,365
Fair value change on investment properties					**1,099**	(6,331)
Gain on bargain purchase					**1,420**	–
Net foreign exchange gain					**15,156**	7,557
Impairment loss of available-for-sale investment					**(196,072)**	–
Impairment loss of exploration and evaluation assets					**(4,517,062)**	–
Impairment loss of intangible assets					**(207,924)**	–
Unallocated corporate expenses					**(49,711)**	(35,683)
(Loss)/profit from operating activities					**(4,576,643)**	100,116
Finance costs					**(45,038)**	(22,008)
(Loss)/profit before taxation					**(4,621,681)**	78,108
Taxation					**(36,744)**	(25,274)
(Loss)/profit for the year					**(4,658,425)**	52,834

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2013: Nil).

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

7. SEGMENT INFORMATION *(Continued)*

Segment assets and liabilities

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Segment assets	7,066,731	8,846,414	977,511	997,577	8,044,242	9,843,991
Unallocated assets					246,544	509,750
Total assets					8,290,786	10,353,741
Segment liabilities	1,145,539	9,945	555,889	544,207	1,701,428	554,152
Unallocated liabilities					3,448	13,239
Total liabilities					1,704,876	567,391

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

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Other segment information:								
Depreciation of property, plant and equipment	1,301	176	5,422	5,386	105	273	6,828	5,835
Depletion of property, plant and equipment	292,806	–	–	–	–	–	292,806	–
Written off of expired exploration and evaluation assets	2,371	–	–	–	–	–	2,371	–
Amortisation of perpaid lease payments	19	20	505	515	–	–	524	535
Impairment loss of available-for-sale investment	196,072	–	–	–	–	–	196,072	–
Impairment loss of exploration and evaluation assets	4,517,602	–	–	–	–	–	4,517,602	–
Impairment loss of intangible assets	–	–	207,924	–	–	–	207,924	–
Additions to non-current assets*	703,459	11,641	71,300	30,738	168	31	774,927	42,410

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the year ended 31 December 2014 and 2013.

7. SEGMENT INFORMATION *(Continued)*

Revenue from major products and services

The Group's revenue from its major products and services were from sale of crude oil and gas as well as trading and distribution of oil related products.

Geographical information

The Group operates in four principal geographical areas – Canada, the PRC, Madagascar and Hong Kong.

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	
	2014	2013	**2014**	2013
	HK$'000	HK$'000	**HK$'000**	HK$'000
Canada	**816,425**	–	**2,760,396**	–
The PRC	**21,530,572**	19,354,899	**402,231**	556,656
Madagascar	**–**	–	**4,109,510**	8,789,553
Hong Kong	**–**	–	**239**	176
	22,346,997	19,354,899	**7,272,376**	9,346,385

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$21,530,572,000 (2013: HK$19,354,899,000) are revenue of HK$15,725,800,000 (2013: HK$15,773,213,000) which arose from two (2013: two) customers of the Group which contributed 10% or more to the Group's total revenue for the year.

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

	2014	2013
	HK$'000	HK$'000
Customer A	**9,993,683**	10,821,510
Customer B	**5,732,117**	4,951,703

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:

	2014 HK$'000	2013 HK$'000
Turnover		
Sales of crude oil and gas	816,425	–
Trading and distribution of oil related products	21,530,572	19,354,899
	22,346,997	19,354,899
Other revenue		
Bank interest income	11,373	13,794
Rental income	3,922	2,571
Others	5,134	–
	20,429	16,365

9. OTHER GAINS AND LOSSES

	2014 HK$'000	2013 HK$'000
Net foreign exchange gain	15,156	7,557
Fair value change on investment properties *(Note 20)*	1,099	(6,331)
Gain on bargain purchase *(Note 40)*	1,420	–
Gain on disposal of property, plant and equipment and exploration and evaluation assets	2,144	–
Written off of expired exploration and evaluation assets	(2,371)	–
Impairment loss of intangible assets *(Note 21)*	(207,924)	–
Impairment loss of exploration and evaluation assets *(Note 22)*	(4,517,062)	–
Impairment loss of available-for-sale investment *(Note 23)*	(196,072)	–
Realised loss on derivative financial instruments	(2,702)	–
Unrealised gain on derivative financial instruments	28,265	–
	(4,878,047)	1,226

10. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2014 HK$'000	2013 HK$'000
Cost of inventories sold	**21,385,786**	19,202,100
Auditors' remuneration	**1,500**	1,000
Depreciation and depletion of property, plant and equipment *(Note 18)*	**299,634**	5,835
Amortisation of prepaid lease payments *(Note 19)*	**524**	535
Minimum lease payments under operating leases of rented premises	**12,764**	5,469
Loss on disposal of property, plant and equipment	**–**	198
Staff costs (including Directors' remuneration)		
— Salaries and wages	**42,231**	12,703
— Pension scheme contributions	**406**	127

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 the Hong Kong Companies Ordinance are as follows:

Name of Directors

	Fees		Salaries, other benefits and bonuses		Pension scheme contributions		Total	
	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000	2014 HK$'000	2013 HK$'000
Executive Directors								
Mr. Zhang Kaiyong *(Chairman)*	–	–	250	250	–	–	250	250
Mr. Ren Yansheng *(Chief Executive Officer)*	–	–	3,383	2,428	–	–	3,383	2,428
Mr. Hui Bo *(Vice President)*	–	–	450	250	–	–	450	250
Mr. Shen Hao	–	–	250	250	–	–	250	250
Mr. Feng Dawei	–	–	250	250	–	–	250	250
Mr. Zhao Jie (appointed on 22 August 2014)	–	–	90	–	–	–	90	–
Mr. Andres Pena Salceda (appointed on 22 August 2014)	–	–	90	–	5	–	95	–
Mr. Yang Jie (resigned on 22 August 2014)	–	–	161	250	–	–	161	250
Mr. To Kwan (resigned on 22 August 2014)	–	–	161	250	8	12	169	262
Dr. William Rakotoarisaina *(Vice Chairman)* *(resigned on 19 April 2013)*	–	–	–	75	–	–	–	75
Independent Non-executive Directors								
Mr. Ng Wing Ka	128	128	–	–	–	–	128	128
Mr. Leung Ting Yuk	128	128	–	–	–	–	128	128
Mr. Sun Liming	128	128	–	–	–	–	128	128
Dr. Mu Guodong	128	130	–	–	–	–	128	130
	512	514	5,085	4,003	13	12	5,610	4,529

11. DIRECTORS' REMUNERATION *(Continued)*

The remuneration of the Directors fell within the following bands:

	Number of Directors	
	2014	2013
HK$		
Nil–1,000,000	**12**	11
2,000,001–2,500,000	**–**	1
3,000,001–3,500,000	**1**	–
	13	12

Included in the Directors' remuneration were fees of HK$512,000 (2013: HK$514,000) paid to Independent Non-executive Directors. No fees were paid to Executive Directors and Independent Non-executive Directors for the year (2013: Nil).

No Directors waived or agreed to waive any remuneration during the year (2013: 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 (2013: 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 (2013: Nil).

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

(a) Five highest paid individuals

The five individuals with the highest emoluments, one (2013: one) is a Director whose emoluments are disclosed in Note 11.

The aggregate of the emoluments in respect of the other four (2013: four) non-Directors are as follows:

	2014 HK$'000	2013 HK$'000
Basic salaries and bonuses	**7,945**	2,657
Pension scheme contributions	**–**	54
	7,945	2,711

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

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

The emoluments of the remaining four (2013: four) individuals, none of them are senior management of the Group (2013: three), with the highest emoluments are within the following bands:

	Number of individuals	
	2014	2013
HK$		
Nil–1,000,000	**–**	3
1,000,001–1,500,000	**–**	1
1,500,001–2,000,000	**3**	–
2,000,001–2,500,000	**1**	–
	4	4

(b) Senior management of the Group

The emoluments of the non-Directors senior management included in abovementioned five highest paid individuals of the Group are within the following bands:

	Number of individuals	
	2014	2013
HK$		
Nil–1,000,000	**–**	2
1,000,001–1,500,000	**–**	1
	–	3

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 (2013: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2013: 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 (2013: Nil).

13. FINANCE COSTS

	2014 HK$'000	2013 HK$'000
Interest expenses on bank borrowings wholly repayable within five years	**36,367**	22,008
Imputed interest on convertible bond *(Note 38)*	**5,466**	–
Accretion of decommissioning liabilities *(Note 36)*	**3,205**	–
	45,038	22,008

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 (2013: 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.

	2014 HK$'000	2013 HK$'000
Current taxation		
Charge for the year — the PRC	**25,837**	26,876
— Canada	**13,075**	–
Deferred taxation		
Credit for the year *(Note 37)*	**(2,168)**	(1,602)
Total tax charged for the year	**36,744**	25,274

14. TAXATION *(Continued)*

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

The Group — for the year ended 31 December 2014

	Hong Kong		The PRC		Canada		Madagascar		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(43,883)		(105,832)		239,287		(4,711,253)		(4,621,681)	
Tax at applicable income tax rate	(7,241)	(16.5)	(26,458)	(25.0)	62,095	25.9	(942,250)	(20.0)	(913,854)	(19.8)
Tax effect of expenses and income not deductible or taxable	2,158	4.9	52,040	49.2	(5,604)	(2.3)	941,489	20.0	990,083	21.4
Tax effect of temporary difference	(3)	–	(51,901)	(49.1)	6,405	2.7	156	–	(45,343)	(1.0)
Tax effect of tax loss not recognised	4,184	9.5	56	0.1	623	0.3	761	–	5,624	0.2
Under provision in prior year	–	–	199	0.2	–	–	–	–	199	–
Effect on deferred tax resulting from change in tax rate	–	–	–	–	35	–	–	–	35	–
Tax charge/(credit) for the year	(902)	(2.1)	(26,064)	(24.6)	63,554	26.6	156	–	36,744	0.8

The Group — for the year ended 31 December 2013

	Hong Kong		The PRC		Madagascar		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'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

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

The consolidated (loss)/profit attributable to owners of the Company for the year includes a loss of HK$45,840,000 (2013: profit of HK$10,868,000) 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 (2013: Nil).

17. (LOSS)/EARNINGS PER SHARE

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

	2014 **HK$'000**	2013 HK$'000
(Loss)/earnings		
(Loss)/profit attributable to the owners of the Company for the purpose of basic and diluted (loss)/earnings per share	**(4,634,817)**	30,920

	2014 **'000**	2013 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted (loss)/earnings per share	**11,860,642**	8,145,573

Diluted (loss)/earnings per share for the years ended 31 December 2014 and 2013 were the same as the basic (loss)/earnings per share. There were no dilutive potential ordinary shares in existence during the years ended 31 December 2014 and 2013.

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18. PROPERTY, PLANT AND EQUIPMENT

The Group

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Petroleum and natural gas properties	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
At 1 January 2013	133,053	3,240	1,669	2,677	–	–	8,732	149,371
Additions	–	274	272	488	–	–	29,735	30,769
Disposals	–	(113)	–	(652)	–	–	–	(765)
Exchange differences	3,631	87	35	56	–	–	292	4,101
At 31 December 2013 and 1 January 2014	136,684	3,488	1,976	2,569	–	–	38,759	183,476
Acquisition of a subsidiary *(Note 40)*	–	–	1,080	–	411	2,444,833	–	2,446,324
Additions	–	2,311	3,774	659	21	667,034	68,216	742,015
Disposals	–	–	–	–	–	(69)	–	(69)
Transfer from exploration and evaluation assets *(Note 22)*	–	–	–	–	–	10,338	–	10,338
Exchange differences	(3,428)	(95)	(101)	(92)	(23)	(139,993)	(1,202)	(144,934)
At 31 December 2014	133,256	5,704	6,729	3,136	409	2,982,143	105,773	3,237,150
Accumulated depreciation and depletion								
At 1 January 2013	4,992	692	786	438	–	–	–	6,908
Charge for the year	4,388	523	343	581	–	–	–	5,835
Eliminated on disposals	–	(65)	–	(489)	–	–	–	(554)
Exchange differences	144	18	18	5	–	–	–	185
At 31 December 2013 and 1 January 2014	9,524	1,168	1,147	535	–	–	–	12,374
Charge for the year	4,300	514	1,195	468	351	292,806	–	299,634
Eliminated on disposals	–	–	–	–	–	(5)	–	(5)
Exchange differences	(253)	(31)	(30)	(15)	(4)	(2,174)	–	(2,507)
At 31 December 2014	13,571	1,651	2,312	988	347	290,627	–	309,496
Net book value								
At 31 December 2014	**119,685**	**4,053**	**4,417**	**2,148**	**62**	**2,691,516**	**105,773**	**2,927,654**
At 31 December 2013	127,160	2,320	829	2,034	–	–	38,759	171,102

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

The Company

	Furniture, fixtures and equipment HK$'000
Cost	
At 1 January 2013, 31 December 2013 and 1 January 2014	275
Additions	135
A 31 December 2014	410
Accumulated depreciation	
At 1 January 2013	121
Charge for the year	56
At 31 December 2013 and 1 January 2014	177
Charge for the year	77
At 31 December 2014	254
Net book value	
At 31 December 2014	**156**
At 31 December 2013	98

19. PREPAID LEASE PAYMENTS

The Group

	2014 HK$'000	2013 HK$'000
Net book value		
At the beginning of the year	21,497	21,471
Amortisation for the year	(524)	(535)
Exchange differences	(516)	561
At the end of the year	20,457	21,497
The Group's prepaid lease payments comprise:		
Land outside Hong Kong under medium term lease	20,457	21,497
Analysed for reporting purposes as:		
Current assets (include in prepayments, deposits and other receivables) *(Note 29)*	522	535
Non-current assets	19,935	20,962
	20,457	21,497

Amortisation on prepaid lease payments of HK$524,000 (2013: HK$535,000) have been charged to profit or loss for the year.

20. INVESTMENT PROPERTIES

The Group

	HK$'000
Fair value	
At 1 January 2013	34,697
Fair value changes	(6,331)
Exchange differences	733
At 31 December 2013 and 1 January 2014	29,099
Fair value changes	1,099
Exchange differences	(535)
At 31 December 2014	**29,663**

Unrealised gain on investment properties revaluation included in profit or loss for the year ended 31 December 2014 amounting to HK$1,099,000 (2013: unrealised loss of HK$6,331,000).

20. INVESTMENT PROPERTIES *(Continued)*

The Group *(Continued)*

The fair value of the Group's investment properties at 31 December 2014 and 2013 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"), 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

				Range of significant unobservable inputs		
Description	**Fair value at 31 December 2014 HK$'000**	**Valuation technique**	**Fair value hierarchy**	**Market unit rent**	**Market unit rate**	**Capitalisation rates**
Investment properties located in the PRC	21,083	Direct comparison approach and income approach	Level 3	RMB12 to RMB50 per month per square metre	RMB2,500 to RMB8,700 per square metre	5.5% to 10%
Investment properties located in Madagascar	8,580	Direct comparison approach	Level 2	N/A	N/A	N/A

20. INVESTMENT PROPERTIES *(Continued)*

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

Description	Fair value at 31 December 2013 HK$'000	Valuation technique	Fair value hierarchy	Range of significant unobservable inputs Market unit rent	Market unit rate	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 metre	RMB269 per square metre	5.50% to 10.50%
Investment properties located in Madagascar	7,800	Direct comparison approach	Level 2	N/A	N/A	N/A

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 lease 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.

A significant increase in the market unit rent, market unit rate and capitalisation rates used would result in a significant increase in fair value, and vice versa.

21. INTANGIBLE ASSETS

The Group

	Refined oil supply agreement HK$'000	Petroleum related business licence HK$'000	Total HK$'000
Cost			
At 1 January 2013	285,334	249,842	535,176
Exchange differences	7,786	–	7,786
At 31 December 2013 and 1 January 2014	293,120	249,842	542,962
Exchange differences	(7,351)	–	(7,351)
31 December 2014	285,769	249,842	535,611
Accumulated impairment			
At 1 January 2013, 31 December 2013 and 1 January 2014	–	249,842	249,842
Impairment loss recognised during the year	207,924	–	207,924
Exchange differences	(698)	–	(698)
At 31 December 2014	207,226	249,842	457,068
Carrying amount			
At 31 December 2014	**78,543**	**–**	**78,543**
At 31 December 2013	293,120	–	293,120

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

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21. INTANGIBLE ASSETS *(Continued)*

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 ended 31 December 2013 and it was renewed on 24 December 2013 by both parties. 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. Impairment loss of HK$207,924,000 was recognised for the year as the management expected that the recoverable amount generated from the underlying assets would be less than previously expected. 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 extrapolated using a steady growth rate of 5% per annum and are based on the same expected gross margins during the budget period. The pre-tax discount rate used was 21.2% (2013: 21.4%).

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

Petroleum related business licence

The business license has been expired during the year ended 31 December 2013.

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22. EXPLORATION AND EVALUATION ASSETS

The Group

	HK$'000
Cost	
At 1 January 2013	12,330,030
Additions arising from jointly controlled operation	11,641
At 31 December 2013 and 1 January 2014	12,341,671
Additions arising from jointly controlled operation	4,897
Acquisition of a subsidiary *(Note 40)*	65,229
Additions	44,357
Disposals and written off	(2,905)
Transfer to property, plant and equipment *(Note 18)*	(10,338)
Exchange differences	(3,627)
At 31 December 2014	12,439,284
Accumulated impairment	
At 1 January 2013, 31 December 2013 and 1 January 2014	3,757,059
Impairment loss recognised during the year	4,517,062
At 31 December 2014	8,274,121
Carrying amount	
At 31 December 2014	**4,165,163**
At 31 December 2013	8,584,612

Notes:

a. The exploration and evaluation assets represent (i) the oil and gas exploration, exploitation and operations rights and profit sharing rights at the Oilfield Block 2104 and the Oilfield Block 3113 in Madagascar, onshore sites for oil and gas exploration, exploitation and operation; (ii) expenditure paid for provision of services on activities relating to exploration and evaluation costs in the Oilfield Block 2104 and the Oilfield Block 3113 in Madagascar; and (iii) the unproved properties and capitalised exploration, drilling and completion costs which are pending the determination of commercial viability in Canada.

b. The Group entered into an investment and co-operation agreement with Yanchang Petroleum Group and ECO Energy (International) Investments Limited ("ECO") on exploration, exploitation and operation in the Oilfield Block 3113 in Madagascar. 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 impairment loss of exploration and evaluation assets of HK$4,517,062,000 was required for the year ended 31 December 2014 while the management expected that the recoverable amount generated from Oilfield Blocks 2104 and 3113 would be less than previously expected mainly due to decline in global market price on oil and natural gas.

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.

23. AVAILABLE-FOR-SALE INVESTMENT

The Group

	2014 HK$'000	2013 HK$'000
Unlisted investment, equity securities		
At cost	196,072	196,072
Impairment loss recognised	(196,072)	–
At carrying amount	–	196,072

The Board does not believe that the Group is able to exercise significant influence over Gold Grand Investment Limited ("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 the year.

The equity securities are stated at cost less impairment loss at the end of the reporting period. The Directors are of the opinion that impairment loss of HK$196,072,000 (2013: Nil) was required for the year ended 31 December 2014 since the management expected that the recoverable amount generated from the investment would be less than previously anticipated.

24. GOODWILL

The Group

	2014 HK$'000	2013 HK$'000
Cost/carrying amount		
At the beginning and the end of the year	**51,418**	51,418

During the year, the Directors determine that no impairment loss should be provided in respect of any cash-generating units containing goodwill (2013: Nil).

The carrying amount of goodwill (net of impairment losses) at 31 December 2014 and 2013 allocated to the cash-generating unit is as follow:

	2014 HK$'000	2013 HK$'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 pre-tax discount rate used is 19.4% (2013: 20.0%). Cash flows beyond 3-year period are extrapolated using a steady growth rate of 5% per annum. The Directors believe that any reasonable 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 segment to the Group's business.

25. INTERESTS IN SUBSIDIARIES

The Company

	2014 HK$'000	2013 HK$'000
Unlisted shares, at cost	**4,847,011**	4,847,011
Less: Provision for impairment loss on investments in subsidiaries *(Note)*	**(2,115,414)**	(249,920)
	2,731,597	4,597,091
Amounts due from subsidiaries	**3,520,426**	1,769,889
Less: Provision for impairment loss on amounts due from subsidiaries *(Note)*	**(78,090)**	(27,080)
	3,442,336	1,742,809
	6,173,933	6,339,900
Amounts due to subsidiaries	**311,089**	311,094

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 receivable amount of the investment costs and the amounts due from subsidiaries for impairment testing purpose. In view of the net liabilities position of the Company's subsidiaries as at 31 December 2014 and 2013, 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:

	2014 HK$'000	2013 HK$'000
At the beginning of the year	**249,920**	250,289
Reversal of impairment loss	**–**	(369)
Impairment loss recognised	**1,865,494**	–
At the end of the year	**2,115,414**	249,920

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

	2014 HK$'000	2013 HK$'000
At the beginning of the year	**27,080**	20,588
Reversal of impairment loss	**(115)**	–
Impairment loss recognised	**51,125**	6,492
At the end of the year	**78,090**	27,080

25. INTERESTS IN SUBSIDIARIES *(Continued)*

Particulars of the principal subsidiaries of the Company as at 31 December 2014 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		Principal activities
			Direct	Indirect	
Madagascar Energy International Gas Station Group Limited	Madagascar	Ordinary AR10,000,000	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	Registered/paid-up capital RMB30,000,000	–	100	Investment holding
Xian Guotai Basic Energy Development Co., Limited	PRC	Registered/paid-up capital RMB25,500,000	–	100	Investment holding
Henan Yanchang	PRC	Registered/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
Henan Yanchang Petroleum Energy Technology Limited*	PRC	Registered/paid-up capital RMB50,000,000	–	70	Transportation of refined oil
Noble Soar Limited**	BVI	Ordinary US$1	100	–	Investment holding
Yanchang Petroleum International Trading Limited	Hong Kong	Ordinary HK$1	–	100	Provision of management services to the holding company
Yanchang International (Canada) Limited***	Canada	Common CAD238,022,520	–	100	Investment holding
Novus Energy Inc. ("Novus")****	Canada	Common CAD131,671,475	–	100	Acquiring, exploring for, developing and producing crude oil and natural gas
Madagascar Energy and Petroleum Investments Limited*****	Madagascar	Ordinary AR2,000,000	–	100	Provision of oil related services

* 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.
**** Novus was acquired on 20 January 2014.
***** Madagascar Energy and Petroleum Investments Limited was incorporated on 10 June 2014.

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		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2014	2013	**2014 HK$'000**	2013 HK$'000	**2014 HK$'000**	2013 HK$'000
Henan Yanchang	PRC	**30%**	30%	**(23,799)**	22,007	**88,125**	120,562

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.

	2014 HK$'000	2013 HK$'000
Current assets	**605,709**	440,835
Non-current assets	**248,862**	505,238
Current liabilities	**(530,325)**	(459,862)
Non-current liabilities	**(30,495)**	(84,337)
Total equity	**293,751**	401,874

	2014 HK$'000	2013 HK$'000
Turnover	**21,530,572**	19,354,899
Cost of sales	**(21,385,786)**	(19,202,100)
(Loss)/profit for the year	**(79,329)**	73,357
Other comprehensive (loss)/income for the year	**(9,741)**	8,796
Total comprehensive (loss)/income for the year	**(89,070)**	82,153
Net cash inflow from operating activities	**83,166**	175,998
Net cash outflow from investing activities	**(8,960)**	(30,725)
Net cash (outflow)/inflow from financing activities	**(130,796)**	80,208
Net cash (outflow)/inflow	**(56,590)**	225,481

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 years ended 31 December 2014 and 2013, 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:

	2014 HK$'000	2013 HK$'000
Assets	211,553	211,553
Liabilities	(125)	–

	2014 HK$'000	2013 HK$'000
Income	–	–
Expenses	(125)	(176)

27. INVENTORIES

The Group

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

28. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (2013: 30 days), are recognised and carried at the original invoiced amount less provision for impairment loss. It is the Group's policy to provide full impairment loss for all receivables over 1 year because based on historical experience such receivables past due beyond 1 year are generally not recoverable. Trade receivables are non-interest bearing.

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

	2014 **HK$'000**	2013 HK$'000
0 to 30 days	**207,903**	–
31 to 60 days	**382**	–
61 to 90 days	**241**	–
Over 90 days	**873**	–
	209,399	–

The Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable. Amount of HK$873,000 are past due at the end of the reporting period but not impaired. The Group does not hold any collaterals or other credit enhancements over these balances.

29. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

The Group

	2014 **HK$'000**	2013 HK$'000
Prepaid lease payments *(Note 19)*	**522**	535
Prepayments to suppliers of refined oil products	**100,148**	101,886
Other prepayments	**34,472**	27,783
Other deposits	**358**	252
Other receivables	**16,295**	334
	151,795	130,790

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. No impairment loss was recognised as at 31 December 2014 and 2013.

30. DERIVATIVE FINANCIAL INSTRUMENTS

The Group

	2014 HK$'000	2013 HK$'000
Current asset		
Oil commodity contract	**18,687**	–

At 31 December 2014, the Group did not designate any derivative financial instruments as hedging instruments and are held for trading purpose. The Group had outstanding oil and natural gas commodity contract at 31 December 2014 as follows:

Commodity	Contract type	Period term	Notional volume	Price	Reference
Crude oil	Fixed price	1/3/2014 – 31/3/2015	750 bbl/d	CAD104.19/bbl	WTI-NYMEX

31. CASH AND BANK BALANCES

The Group

Included in the cash and bank balances as at 31 December 2014 were amounts in RMB equivalent to HK$494,972,000 (2013: HK$666,564,000) which are not freely convertible into other currencies.

32. SHARE CAPITAL

	Number of shares		Share capital	
	2014 '000	2013 '000	2014 HK$'000	2013 HK$'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**	8,145,573	**162,911**	162,911
Issuance of ordinary shares upon conversion of convertible bond *(Note)*	**4,000,000**	–	**80,000**	–
At the end of the year, ordinary shares of HK$0.02 each	**12,145,573**	8,145,573	**242,911**	162,911

32. SHARE CAPITAL *(Continued)*

Note:

On 7 January 2014, the Company issued 3-years HK$1,600,000,000 unsecured and non-interest bearing convertible bond to Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") which is a substantial shareholder of the Company. Yanchang Petroleum HK has the option to convert the convertible bond into ordinary shares of the Company of HK$0.02 each at a conversion price of HK$0.40, subject to adjustments in accordance with the instrument constituting the convertible bond, at any time from 7 January 2014, the issue date, up to and excluding the fifth business day immediately before 6 January 2017, the maturity date. Unless previously redeemed and cancelled, the convertible bond will be redeemed at par on the maturity date.

On 27 January 2014, Yanchang Petroleum HK exercised the conversion right and the entire convertible bond was converted into 4,000,000,000 ordinary shares of the Company of HK$0.02 each. The conversion shares rank pari passu in all respects with the shares of the Company.

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.

32. SHARE CAPITAL *(Continued)*

Share Options *(Continued)*

Share Option Scheme *(Continued)*

The following table discloses movements in the Company's share options under the Scheme:

31 December 2013

Name or category of participant	Option type	Number of share options: At 1 January 2013	Number of share options: Granted during the year	Number of share options: Exercised during the year	Number of share options: Expired/ forfeited during the year	Number of share options: 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)	–				

Note:

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

32. 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 years ended 31 December 2014 and 2013.

33. 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 45 of the consolidated financial statements.

The Company

	Share premium HK$'000 *(Note i)*	Contributed surplus HK$'000 *(Note ii)*	Share option reserve HK$'000	Convertible bond reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2014	6,639,269	54,045	–	–	(393,704)	6,299,610
Issuance of convertible bond	–	–	–	383,041	–	383,041
Deferred tax of convertible bond	–	–	–	(63,202)	–	(63,202)
Issuance of ordinary shares upon conversion of convertible bond	1,524,564	–	–	(319,839)	–	1,204,725
Total comprehensive loss for the year	–	–	–	–	(1,962,343)	(1,962,343)
At 31 December 2014	**8,163,833**	**54,045**	**–**	**–**	**(2,356,047)**	**5,861,831**

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$6,400,774,000 (2013: HK$4,876,210,000); and (ii) special reserve of HK$1,763,059,000 (2013: 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 contributed 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$4,098,772,000 at 31 December 2014 (2013: HK$4,536,551,000), which included the Company's contributed surplus in the amount of HK$54,045,000 (2013: 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$6,400,774,000 at 31 December 2014 (2013: HK$4,876,210,000), may be distributed in the form of fully paid bonus shares.

34. TRADE AND OTHER PAYABLES

The Group

	2014 HK$'000	2013 HK$'000
Trade payables	**271,319**	23
Deposit received in advance from customers	**79,706**	125,616
Other payables	**123,032**	27,558
	474,057	153,197

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

	2014 HK$'000	2013 HK$'000
0 to 30 days	**262,988**	23
31 to 60 days	**5,619**	–
61 to 90 days	**1,565**	–
Over 90 days	**1,147**	–
	271,319	23

As at 31 December 2014 and 2013, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

35. BANK BORROWINGS

The Group

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

	2014 HK$'000	2013 HK$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note a)*	**199,664**	320,000
Secured bank borrowings *(Note b)*	**728,454**	–
	928,118	320,000

35. BANK BORROWINGS *(Continued)*

The Group *(Continued)*

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

	2014	2013
Floating rate	3.49–6.00%	6.00%

Notes:

(a) As at 31 December 2014, Henan Yanchang drawn unsecured bank borrowings of RMB160,000,000 (equivalent to HK$199,664,000) (31 December 2013: RMB250,000,000 (equivalent to HK$320,000,000)). The bank borrowings denominated in RMB bear interest at the prevailing market rates quoted by the People's Bank of China and repayable within next twelve months.

(b) As at 31 December 2014, Novus drawn CAD109,050,000 (equivalent to HK$728,454,000) against its CAD130 million revolving operating demand loan (31 December 2013: Nil). The revolving operating demand loan is available to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee with interest paid monthly. Rates and fees are determined quarterly and are based on a grid system with interest rates ranging from 0.5% to 2.5% over the bank's prime lending rate; bankers' acceptances stamping fees ranging from 1.75% to 3.75%; letters of credit/guarantee fees ranging from 1.5% to 3.0%; and standby fees ranging from 0.2% to 0.45%, all depending on a net debt to cash flow ratio ranging from less than or equal to 1:1 up to greater than 3:1.

As at 31 December 2014, interest on the revolving operating demand loan is charged at prime plus 0.75% per annum, bankers' acceptances stamping fees are 2% per annum, letters of credit/guarantee are charged at fee of 1.75% per annum, and standby fees are 0.25% per annum.

The credit facilities are secured by a general assignment of book debts and a CAD200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request. The credit facilities are subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1, but for the purpose of the covenant, outstanding bank debt and the fair value of any commodity contacts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at 31 December 2014, this ratio of Novus is 1.6:1. The credit facilities are subject to periodic review by the bank with the next review scheduled on or before 31 March 2015, but may be set at an earlier or later date at the sole discretion of the bank.

36. DECOMMISSIONING LIABILITIES

The Group's decommissioning liabilities are based on the Group's net ownership in wells and facilities along with management's estimate of the timing and expected future costs associated with the plugging and abandonment of wells, facilities dismantlement and site reclamation.

The following table reconciles the changes in the Group's decommissioning liabilities during the year:

	2014 **HK$'000**	2013 HK$'000
At the beginning of the year	**–**	–
Acquisition of a subsidiary *(Note 40)*	**103,261**	–
Liabilities incurred	**16,342**	–
Liabilities settled	**(5,168)**	–
Liabilities extinguished on property dispositions	**(616)**	–
Accretion expense *(Note 13)*	**3,205**	–
Exchange differences	**(5,797)**	–
At the end of the year	**111,227**	–

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD26.1 million (equivalent to HK$174 million) (2013: Nil). The obligations were calculated using a risk-free interest rate of 3.25% and an inflation rate of 2%. It is expected that the obligations will be funded from Novus's general resources at the time the costs are incurred with the majority of costs expected to occur between 2020 and 2037.

37. DEFERRED TAX LIABILITIES

The Group

	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Investment properties HK$'000	Intangible assets HK$'000	Decom-missioning liabilities HK$'000	Non-capital losses HK$'000	Share issuance costs HK$'000	Tax assets not recognised HK$'000	Derivative financial instruments HK$'000	Convertible bond HK$'000	Total HK$'000
At 1 January 2013	7,424	1,797	4,326	71,334	–	–	–	–	–	–	84,881
Effect on change in tax rate	–	–	(61)	–	–	–	–	–	–	–	(61)
Credited to profit or loss during the year	–	–	(1,602)	–	–	–	–	–	–	–	(1,602)
Exchange differences	203	49	144	1,946	–	–	–	–	–	–	2,342
At 31 December 2013 and 1 January 2014	7,627	1,846	2,807	73,280	–	–	–	–	–	–	85,560
Acquisition of a subsidiary *(Note 40)*	230,364	–	–	–	(26,807)	(128,292)	(1,080)	41,708	–	–	115,893
Debited/(credited) to profit or loss during the year *(Note 14)*	49,035	–	236	(51,981)	(3,563)	(2,978)	1,028	2,071	4,886	(902)	(2,168)
Issuance of convertible bond	–	–	–	–	–	–	–	–	–	63,202	63,202
Release upon conversion of convertible bond	–	–	–	–	–	–	–	–	–	(62,300)	(62,300)
Exchange differences	(13,273)	(46)	(40)	(1,663)	1,507	7,104	52	(2,318)	(36)	–	(8,713)
At 31 December 2014	**273,753**	**1,800**	**3,003**	**19,636**	**(28,863)**	**(124,166)**	**–**	**41,461**	**4,850**	**–**	**191,474**

The Group and the Company did not have any significant unprovided deferred tax liabilities at 31 December 2014 (2013: Nil).

38. CONVERTIBLE BOND

On 7 January 2014, the Company issued convertible bond in the principal amount of HK$1.6 billion ("Convertible Bond") to Yanchang Petroleum HK. The Convertible Bond is interest-free and matures on the date falling on the third anniversary of the date of issuance ("Maturity Date"). The Convertible Bond entitles the holder to convert to the ordinary shares of the Company at a conversion price of HK$0.40 per share (in integral multiple of HK$1 million or such lesser amount representing the entire outstanding principal amount of the Convertible Bond) and will be convertible into 4,000,000,000 shares assuming full conversion.

Conversion may occur at any time during the date of the issuance of the Convertible Bond, up to the close of business on the date falling 5 business days prior to the Maturity Date.

Unless previously converted, purchased and cancelled, the Company shall pay the outstanding principal amount under the Convertible Bond by cash on the Maturity Date; the Company may redeem the Convertible Bond at any time and from time to time before the Maturity Date upon mutual agreement with the subscriber.

The Convertible Bond contains two components: liability and equity elements. The equity element is presented in the consolidated statement of changes in equity heading "Convertible bond reserve". The effective interest rate of the liability component on initial recognition is 9.54% per annum.

	HK$'000
Proceeds of issue	1,600,000
Liability component at date of issue	1,216,959
Equity component	383,041
Liability component at date of issue	1,216,959
Imputed interest charged *(Note 13)*	5,466
Conversion of the Convertible Bond	(1,222,425)
Liability component at 31 December 2014	–

On 27 January 2014, the entire Convertible Bond was fully converted into 4,000,000,000 ordinary shares of the Company and were allotted and issued to Yanchang Petroleum HK.

39. 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$406,000 for the year ended 31 December 2014 (2013: HK$127,000) represented contributions payable to the above schemes by the Group.

40. ACQUISITION OF A SUBSIDIARY

On 20 January 2014, the Group acquired the entire issued share capital of Novus at a consideration of CAD232,450,000 (equivalent to HK$1,643,492,000). Novus is principally engaged in acquiring, exploring for, developing and producing crude oil and natural gas in Western Canada. Novus is primarily engaged in the development of the Viking light oil resource play in the Canadian Province of Saskatchewan.

	Acquiree's carrying amount	**Fair value adjustments**	**Fair value**
	HK$'000	HK$'000	HK$'000
Net assets acquired:			
Property, plant and equipment *(Note 18)*	1,646,151	800,173	2,446,324
Exploration and evaluation assets *(Note 22)*	65,229	–	65,229
Trade receivables	112,592	–	112,592
Prepayments, deposits and other receivables	4,938	–	4,938
Trade and other payables	(113,956)	–	(113,956)
Bank borrowings	(641,146)	–	(641,146)
Derivative financial instruments	(9,915)	–	(9,915)
Decommissioning liabilities *(Note 36)*	(103,261)	–	(103,261)
Deferred tax liabilities *(Note 37)*	91,832	(207,725)	(115,893)
	1,052,464	592,448	1,644,912
Gain on bargain purchase *(Note 9)*			(1,420)
Total consideration			1,643,492

40. ACQUISITION OF A SUBSIDIARY *(Continued)*

	HK$'000
Satisfied by:	
Cash	1,643,492

	HK$'000
Net cash outflow from acquisition:	
Cash and cash equivalents acquired	–
Less: Consideration paid in cash and cash equivalents	(1,643,492)
	(1,643,492)

Notes:

(i) Acquisition related costs amounting to HK$44,092,000 have been excluded from the consideration paid and have been recognised as an expense in the year 2013 and 2014, within the "administrative expenses" line item in the consolidated statement of profit or loss and other comprehensive income.

(ii) Novus acquired during the year ended 31 December 2014 contributed revenue of HK$816,425,000 to the Group's revenue and attributed profit of HK$163,821,000 to the Group's profit after taxation.

(iii) Gain on bargain purchase arose in business combination is attributable to the discount on the cost of the consideration paid to acquire Novus. The Group has reassessed the fair value of the acquiree's identifiable net assets and considered the values of net assets are measured reliably.

(iv) If the acquisition had been completed on 1 January 2014, total Group's revenue for the year would have been HK$22,391,044,000, and loss for the year attributable to equity holders of the Company would be HK$4,630,566,000. The pro forma information is for illustrative purpose only and is not necessarily an indication of revenue and results of the Group that actually would have been achieved had the acquisition been completed on 1 January 2014, nor is it intended to be a projection of future results.

(v) The fair value of the trade receivables acquired is HK$112,592,000. The gross amount of these receivables is HK$112,592,000. None of these receivables have been impaired and expected to be uncollectible.

41. 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 investment properties 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:

	2014 HK$'000	2013 HK$'000
Within one year	8,985	5,642
In the second to fifth year, inclusive	12,886	6,885
	21,871	12,527

The Group as lessor

The Group leases certain office premises and 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:

	2014 HK$'000	2013 HK$'000
Within one year	2,608	2,675
In the second to fifth year, inclusive	6,889	6,748
Over five years	48	50
	9,545	9,473

42. COMMITMENTS

The Group had capital commitments to pay pipeline construction costs amounted to HK$24,991,000 (2013: HK$79,344,000) and exploration and evaluation cost amounted to HK$1,974,000 (2013: Nil) which were contracted but not provided for as at 31 December 2014.

43. CONTINGENT LIABILITIES

As at 31 December 2014, the Group and the Company had no contingent liabilities (2013: Nil).

44. 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

	2014 HK$'000	2013 HK$'000
Salaries and allowances	7,231	6,776
Mandatory provident fund contributions	29	51
	7,260	6,827

During the year ended 31 December 2014, the Group had the following connect transactions with a related party:

Name of related parties	Relationship	Nature of transactions	2014 HK$'000	2013 HK$'000
Yanchang Petroleum Group	Substantial shareholder	Supply of refined oil	2,557,372	4,619,739

Notes: The transaction constitutes continuing connected transaction under Chapter 14A of the Listing Rules. Please also refer to "Continuing Connected Transactions" under "Report of the Directors".

45. COMPARATIVE FINANCIAL INFORMATION

To provide more reliable and relevant financial information to the users of the consolidated financial statements, the Group has changed the presentation of the consolidated statement of profit or loss and other comprehensive income from based on function of expense method to based on nature of expense method during the year. Therefore, the comparative information has been re-presented to conform to the current year's presentation.

46. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 27 March 2015.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2014 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%
20km from 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%