



# 2016

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Stock Code：933.HK

# INTERIM REPORT

光滙石油(控股)有限公司

**Brightoil Petroleum (Holdings) Limited**

(Incorporated in Bermuda with limited liability)


# CONTENTS

# REPORT ON REVIEW OF CONDENSED CONSOLIDATED FINANCIAL STATEMENTS

Deloitte.
德勤

**TO THE BOARD OF DIRECTORS OF BRIGHTOIL PETROLEUM (HOLDINGS) LIMITED**
(incorporated in Bermuda with limited liability)

## INTRODUCTION

We have reviewed the condensed consolidated financial statements of Brightoil Petroleum (Holdings) Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 3 to 60, which comprises the condensed consolidated statement of financial position as of 31 December 2015 and the related condensed consolidated statement of profit or loss and other comprehensive income, statement of changes in equity and statement of cash flows for the six-month period then ended, and certain explanatory notes. The Main Board Listing Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited require the preparation of a report on interim financial information to be in compliance with the relevant provisions thereof and Hong Kong Accounting Standard 34 "Interim Financial Reporting" ("HKAS 34") issued by the Hong Kong Institute of Certified Public Accountants. The directors of the Company are responsible for the preparation and presentation of these condensed consolidated financial statements in accordance with HKAS 34. Our responsibility is to express a conclusion on these condensed consolidated financial statements based on our review, and to report our conclusion solely to you, as a body, in accordance with our agreed terms of engagement, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

## SCOPE OF REVIEW

We conducted our review in accordance with Hong Kong Standard on Review Engagements 2410 "Review of Interim Financial Information Performed by the Independent Auditor of the Entity" issued by the Hong Kong Institute of Certified Public Accountants. A review of these condensed consolidated financial statements consists of making inquiries, primarily of persons responsible for financial and accounting matters, and applying analytical and other review procedures. A review is substantially less in scope than an audit conducted in accordance with Hong Kong Standards on Auditing and consequently does not enable us to obtain assurance that we would become aware of all significant matters that might be identified in an audit. Accordingly, we do not express an audit opinion.

## CONCLUSION

Based on our review, nothing has come to our attention that causes us to believe that the condensed consolidated financial statements is not prepared, in all material respects, in accordance with HKAS 34.

**Deloitte Touche Tohmatsu**
*Certified Public Accountants*
Hong Kong
26 February 2016

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

| | Notes | Six months ended 31 December<br>**2015**<br>**HK$'000**<br>**(unaudited)** | <br>2014<br>HK$'000<br>(unaudited) |
|---|---|---|---|
| Revenue | 3 | **21,649,211** | 44,886,474 |
| Cost of sales and services – Depreciation and amortisation | | **(693,428)** | (568,760) |
| Cost of sales and services – Others | | **(20,291,216)** | (44,487,942) |
| Gross profit (loss) | | **664,567** | (170,228) |
| Other income | 5 | **1,629** | 3,140 |
| Other gains and losses, net | 5 | **(700,793)** | 16,754 |
| Net gains on derivative financial instruments | 19 | **493,789** | 1,555,492 |
| Loss on conversion option derivative embedded in convertible bonds | 21 | **(60,806)** | – |
| Loss on issue of convertible bonds | 21 | **(36,168)** | – |
| Other expenses | 6 | **(120,146)** | (112,779) |
| Distribution and selling expenses | | **(132,113)** | (112,610) |
| Administrative expenses | | **(138,246)** | (154,973) |
| Finance costs | 7 | **(404,862)** | (322,410) |
| Share of profits of joint ventures | | **8,372** | 508 |
| (Loss) profit before taxation | 8 | **(424,777)** | 702,894 |
| Income tax charge | 9 | **(98,179)** | (141,753) |
| (Loss) profit for the period attributable to the owners of the Company | | **(522,956)** | 561,141 |
| Other comprehensive (expense) income | | | |
| Item that will not be reclassified subsequently to profit or loss: | | | |
| Exchange differences arising on translation to presentation currency | | **(607)** | 3,702 |
| Item that may be subsequently reclassified to profit or loss: | | | |
| Exchange differences arising on translation of foreign operations | | **(161,608)** | 2,062 |
| Other comprehensive (expense) income for the period | | **(162,215)** | 5,764 |
| Total comprehensive (expense) income for the period attributable to the owners of the Company | | **(685,171)** | 566,905 |
| | | **(unaudited)** | (unaudited) |
| (Loss) earnings per share | | | |
| Basic | 11 | **HK(5.17) cents** | HK6.41 cents |
| Diluted | 11 | **HK(5.17) cents** | HK6.01 cents |

# CONDENSED CONSOLIDATED STATEMENT OF FINANCIAL POSITION

| | Notes | At 31 December 2015 HK$'000 (unaudited) | At 30 June 2015 HK$'000 (audited) |
|---|---|---|---|
| Non-current assets | | | |
| Property, plant and equipment | 12 | **11,142,366** | 11,394,698 |
| Prepaid lease payments for land | | **475,717** | 502,269 |
| Prepaid lease payments for coast | | **13,624** | 14,440 |
| Investment property | 12 | **42,000** | 42,000 |
| Interests in joint ventures | | **713,470** | 739,143 |
| Mining interests | 13 | **4,253,748** | 5,050,590 |
| Deposits paid for acquisition of property, plant and equipment | 14 | **1,068,934** | 70,427 |
| Prepayments, rental and other deposits | | **8,193** | 21,514 |
| Deferred tax assets | | **3,800** | – |
| | | **17,721,852** | 17,835,081 |
| Current assets | | | |
| Inventories | | **407,375** | 833,231 |
| Trade debtors | 15 | **4,283,638** | 6,871,719 |
| Accrued revenue | | **171,805** | 87,963 |
| Amounts due from a related company | 23 | **222,884** | – |
| Prepaid lease payments for land | | **10,625** | 11,135 |
| Prepaid lease payments for coast | | **310** | 325 |
| Derivative financial instruments | 19 | **572,459** | 277,740 |
| Other debtors, prepayments and deposits | 15 | **3,215,270** | 110,509 |
| Amounts due from joint ventures | 23 | **299** | 308 |
| Securities held-for-trading | 16 | **84,528** | 138,916 |
| Receivables from brokers | | **102,611** | 230,535 |
| Pledged bank deposits | | **968,190** | 1,552,576 |
| Bank balances and cash | | **1,134,536** | 934,800 |
| | | **11,174,530** | 11,049,757 |

| | Notes | At 31 December 2015 HK$'000 (unaudited) | At 30 June 2015 HK$'000 (audited) |
|---|---|---|---|
| Current liabilities | | | |
| Trade creditors | 18 | 2,195,617 | 3,109,572 |
| Trade payable to a related company | 18, 23 | – | 4,785 |
| Loan from a related company | 23, 25 | – | 949,588 |
| Other creditors and accrued charges | 18 | 1,656,816 | 1,753,439 |
| Bank borrowings | 17 | 6,493,775 | 4,567,341 |
| Payables to brokers | | 28,708 | – |
| Derivative financial instruments | 19 | 452,340 | 236,778 |
| Profits tax liabilities | | 105,240 | 188,552 |
| | | 10,932,496 | 10,810,055 |
| Net current assets | | 242,034 | 239,702 |
| Total assets less current liabilities | | 17,963,886 | 18,074,783 |
| Non-current liabilities | | | |
| Convertible bonds | 21 | 1,017,407 | – |
| Conversion option derivative embedded in convertible bonds | 21 | 336,700 | – |
| Bank borrowings | 17 | 6,534,423 | 6,287,207 |
| Loans from a related company | 23, 25 | – | 810,391 |
| Provision for restoration and environmental costs | 26 | 216,482 | 210,523 |
| Deferred tax liabilities | | 34,744 | 40,486 |
| | | 8,139,756 | 7,348,607 |
| | | 9,824,130 | 10,726,176 |
| Capital and reserves | | | |
| Share capital | 20 | 253,913 | 253,913 |
| Reserves | | 9,570,217 | 10,472,263 |
| Equity attributable to owners of the Company | | 9,824,130 | 10,726,176 |

# CONDENSED CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

| | Share capital HK$'000 | Share premium HK$'000 | Capital redemption reserves HK$'000 | Special reserve HK$'000 (Note a) | Shareholder's contribution HK$'000 (Note b) | Translation reserve HK$'000 | Convertible notes reserve HK$'000 | Other reserve HK$'000 (Note c) | Employees share-based compensation reserve HK$'000 | Shares held for share award scheme HK$'000 | Accumulated profits HK$'000 | Total HK$'000 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **At 1 July 2015 (audited)** | **253,913** | **6,798,519** | **3,489** | **1,000** | **423,501** | **74,464** | **-** | **-** | **3,453** | **(80,955)** | **3,248,792** | **10,726,176** |
| Loss for the period | - | - | - | - | - | - | - | - | - | - | (522,956) | (522,956) |
| Other comprehensive expense for the period | - | - | - | - | - | (162,215) | - | - | - | - | - | (162,215) |
| Total comprehensive expense for the period | - | - | - | - | - | (162,215) | - | - | - | - | (522,956) | (685,171) |
| Shares purchased for share award scheme | - | - | - | - | - | - | - | - | - | (22,147) | - | (22,147) |
| Recognition of equity-settled share-based payments – share award | - | - | - | - | - | - | - | - | 8,402 | - | - | 8,402 |
| Dividend paid (note 10) | - | - | - | - | - | - | - | - | - | - | (203,130) | (203,130) |
| **At 31 December 2015 (unaudited)** | **253,913** | **6,798,519** | **3,489** | **1,000** | **423,501** | **(87,751)** | **-** | **-** | **11,855** | **(103,102)** | **2,522,706** | **9,824,130** |
| At 1 July 2014 (audited) | 219,163 | 4,211,487 | 3,489 | 1,000 | 160,377 | 73,409 | 1,040,839 | (861,202) | 32,494 | (20,799) | 2,690,019 | 7,550,276 |
| Profit for the period | - | - | - | - | - | - | - | - | - | - | 561,141 | 561,141 |
| Other comprehensive income for the period | - | - | - | - | - | 5,764 | - | - | - | - | - | 5,764 |
| Total comprehensive income for the period | - | - | - | - | - | 5,764 | - | - | - | - | 561,141 | 566,905 |
| Shares purchased for share award scheme | - | - | - | - | - | - | - | - | - | (12,762) | - | (12,762) |
| Recognition of equity-settled share-based payments – share award | - | - | - | - | - | - | - | - | 3,304 | - | - | 3,304 |
| Deemed capital contribution from ultimate controlling shareholder | - | - | - | - | 271,728 | - | - | - | - | - | - | 271,728 |
| Forfeiture of share options | - | - | - | - | - | - | - | - | (622) | - | 622 | - |
| Forfeiture of share award | - | - | - | - | - | - | - | - | (85) | - | 85 | - |
| At 31 December 2014 (unaudited) | 219,163 | 4,211,487 | 3,489 | 1,000 | 432,105 | 79,173 | 1,040,839 | (861,202) | 35,091 | (33,561) | 3,251,867 | 8,379,451 |

Notes:

a. The special reserve of the Group represents the difference between the nominal amount of the share capital issued by First Sign Investments Limited in exchange for the nominal amount of the share capital of its subsidiaries pursuant to the group reorganisation in 1995.

b. During the year ended 30 June 2008, the Group disposed of two subsidiaries to the former major controlling shareholder of the Company, with total consideration of approximately HK$263,374,000. The gain on disposal of the subsidiaries of approximately HK$33,679,000 was deemed as a shareholder's contribution to the Group and was credited to the equity as a reserve. During the six months ended 31 December 2014, deemed contribution arising from loans from a related company controlled by the ultimate controlling shareholder of the Company of approximately HK$271,728,000 was recognised. At 31 December 2015 and 30 June 2015, the accumulated deemed contribution arising from loans from a related company controlled by the ultimate controlling shareholder of the Company was approximately HK$389,822,000 (31 December 2014: HK$398,426,000).

c. Other reserve represents the difference between the redemption consideration allocated from fair value of the new convertible notes, after modification of its original maturity date which was supposed to be on 27 October 2012 (i.e the date of redemption), to 27 October 2015 and the carrying amount of the outstanding options in connection with the convertible notes as at the date of redemption. Upon the conversion of the new convertible notes in full during the year ended 30 June 2015, such reserve was transferred to accumulated profits.

# CONDENSED CONSOLIDATED STATEMENT OF CASH FLOWS

| | Note | Six months ended 31 December 2015 HK$'000 (unaudited) | 2014 HK$'000 (unaudited) |
|---|---|---|---|
| OPERATING ACTIVITIES | | | |
| (Loss) profit before taxation | | **(424,777)** | 702,894 |
| Adjustments for: | | | |
| Finance costs | | **404,862** | 322,410 |
| Net gains on derivative financial instruments | | **(493,789)** | (1,555,492) |
| Loss on conversion option derivative embedded in convertible bonds | | **60,806** | – |
| Loss on issue of convertible bonds | | **36,168** | – |
| Depreciation of property, plant and equipment | | **354,482** | 364,924 |
| Amortisation of mining interests | | **345,758** | 206,155 |
| Fair value change on inventories | | **(15,854)** | 317,278 |
| Impairment loss recognised on mining interests | | **450,264** | – |
| Impairment loss recognised on property, plant and equipment | | **168,733** | – |
| Net losses (gains) on securities held-for-trading | | **49,633** | (11,121) |
| Other non-cash items | | **(1,431)** | 2,557 |
| Operating cash flows before movements in working capital | | **934,855** | 349,605 |
| Decrease in inventories | | **441,710** | 1,163,559 |
| Decrease (increase) in trade debtors | | **2,581,944** | (382,548) |
| Increase in other receivables, prepayments and deposits | | **(3,091,440)** | (7,155) |
| Decrease in receivables from brokers | | **127,924** | 1,306,005 |
| Increase in payables to brokers | | **28,708** | – |
| (Decrease) increase in trade creditors | | **(907,499)** | 1,071,799 |
| Other working capital items | | **378,097** | 789,375 |
| NET CASH GENERATED FROM OPERATING ACTIVITIES | | **494,299** | 4,290,640 |
| INVESTING ACTIVITIES | | | |
| Acquisition of a subsidiary, net of cash and cash equivalent acquired | 27 | **–** | (6,017,204) |
| Purchase of property, plant and equipment | | **(259,477)** | (503,157) |
| Settlement of payables in relation to purchase of property, plant and equipment in prior year | | **(421,035)** | (197,542) |
| Deposits paid for acquisition of property, plant and equipment | | **(1,015,477)** | (6,251) |
| Repayment from a joint venture | | **–** | 62,465 |
| Advance to a related party | | **(222,884)** | – |
| Capital contribution to joint ventures | | **–** | (124,079) |
| Placement to pledged bank deposits | | **(2,846,219)** | (4,141,034) |
| Withdrawal of pledged bank deposits | | **3,426,686** | 3,234,750 |
| Other investing cash flows | | **78,649** | 8,641 |
| NET CASH USED IN INVESTING ACTIVITIES | | **(1,259,757)** | (7,683,411) |

| | Six months ended 31 December 2015 HK$'000 (unaudited) | 2014 HK$'000 (unaudited) |
|---|---|---|
| FINANCING ACTIVITIES | | |
| Bank and other borrowings raised | **12,875,567** | 13,222,857 |
| Repayment of bank borrowings | **(10,694,977)** | (8,579,564) |
| Proceeds from issue of convertible bonds | **1,255,597** | – |
| Transaction costs attributable to issue of convertible bonds | **(7,702)** | – |
| Dividend paid | **(203,130)** | – |
| Advance from a related company | **–** | 383,824 |
| Repayment of loans from a related company | **(1,933,790)** | (1,762,926) |
| Other financing cash flows | **(238,943)** | (188,284) |
| NET CASH FROM FINANCING ACTIVITIES | **1,052,622** | 3,075,907 |
| Net increase (decrease) in cash and cash equivalents | **287,164** | (316,864) |
| Cash and cash equivalents at 1 July | **857,280** | 1,610,923 |
| Effect of foreign exchange rate changes | **(9,908)** | 1,676 |
| Cash and cash equivalents at 31 December represented by bank balances and cash | **1,134,536** | 1,295,735 |
| Bank balances and cash at 1 July represented by: | | |
| – Cash and cash equivalents | **857,280** | 1,610,923 |
| – Bank deposits with original maturity over three months | **77,520** | – |
| | **934,800** | 1,610,923 |

## 1. BASIS OF PREPARATION

The condensed consolidated financial statements have been prepared in accordance with the applicable disclosure requirements of Appendix 16 to the Rules Governing the Listing of Securities on The Stock Exchange of Hong Kong Limited (the "Stock Exchange") (the "Listing Rules") and with Hong Kong Accounting Standard 34 ("HKAS 34") "Interim Financial Reporting" issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA").

In preparing the condensed consolidated financial statements, the executive directors of the Company have given careful consideration to the future liquidity of the Group as the total current assets are only marginally higher than the total current liabilities by approximately HK$242,034,000. As mentioned in notes 15 and 23 to the condensed consolidated financial statements, the Group has made prepayments of approximately of HK$3,100,336,000 to a related company for purchase of fuel oil between the period from 1 March 2016 to 30 June 2016. During the six months ended 31 December 2015, the Group has purchased fuel oil from the related company amounting to approximately HK$3,540,000,000. With reference to the trading history with such related company, the executive directors of the Company are in the opinion that the related company will be able to deliver the fuel oil in accordance with the scheduled timeframe, or refund the remaining deposits if the delivery has not been made up to the prepaid amount until 30 June 2016.

## 2. PRINCIPAL ACCOUNTING POLICIES

The condensed consolidated financial statements have been prepared on the historical cost basis, except for an investment property and certain financial instruments, which are measured at fair values, and fuel, gas and crude oil inventories (except for those produced from upstream crude oil business), which are measured at fair value less costs to sell.

Except for the newly adopted accounting policies which have become applicable to the Group as described below, the accounting policies and methods of computation used in the condensed consolidated financial statements for the six months ended 31 December 2015 are the same as those followed in the preparation of the Group's annual consolidated financial statements for the year ended 30 June 2015.

### Convertible bonds containing liability component, conversion option derivative and issuer's early redemption option

The component parts of the convertible bonds issued by the Company are classified separately as financial liabilities and/or equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument. A conversion option that will be settled other than 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 a conversion option derivative.

## 2. PRINCIPAL ACCOUNTING POLICIES (CONTINUED)

### Convertible bonds containing liability component, conversion option derivative and issuer's early redemption option (continued)

At the date of issue, the liability component, conversion option derivative and issuer's early redemption option are recognised at fair values. The fair value of the liability component is estimated using the prevailing market interest rate for similar non-convertible instruments. The fair values of the issuer's early redemption option and conversion option derivative are determined using valuation technique, such as Monte Carlo simulation option pricing model which is a broad class of computational algorithms that rely on repeated random sampling to obtain numerical results. The issuer's early redemption option embedded in the convertible bonds is separated out from the host liability when its risk and characteristic are not closely related to that of the host contract. In subsequent periods, the liability component of the convertible bonds is carried at amortised cost using the effective interest method. The issuer's early redemption option and conversion option derivative are measured at fair value with changes in fair value recognised in profit or loss.

Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to their relative fair values. Transaction costs relating to the derivative component are charged to profit or loss immediately. Transaction costs relating to the liability component are included in the carrying amount of the liability portion and amortised over the period of the convertible bonds using the effective interest method.

In the current interim period, there is no new and revised Hong Kong Financial Reporting Standards ("HKFRSs") issued by the HKICPA that are mandatorily effective for the current interim period.

## 3. REVENUE

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Revenue from marine bunkering | **2,539,265** | 4,078,464 |
| Sales of petroleum products from international trading | **17,248,785** | 38,720,663 |
| Marine transportation income | **707,762** | 603,854 |
| Sales of natural gas and condensate from upstream business | **375,650** | 566,043 |
| Sales of crude oil from upstream business | **775,990** | 910,402 |
| Dividend income | **1,065** | 6,469 |
| Rental income from an investment property | **694** | 579 |
| | **21,649,211** | 44,886,474 |

## 4. SEGMENT INFORMATION

Information reported to the executive directors of the Company, being the chief operating decision maker ("CODM") who makes the decision of resource allocation and assessment of segment performance, focuses on types of goods or services delivered or provided contributing to the Group's result for the period:

The Group's reportable and operating segments under HKFRS 8 "Operating segments" are therefore as follows:

| | | |
|---|---|---|
| International trading and bunkering operation | – | international supply of petroleum products and provision of marine bunkering and related services to international vessels |
| Marine transportation operation | – | provision of marine transportation services of fuel oil or crude oil internationally |
| Upstream natural gas business | – | natural gas development, production and sales operation |
| Upstream crude oil business | – | crude oil development, production and sales operation |
| Direct investments | – | investments in listed equity securities |

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results

The following is an analysis of the Group's revenue and results by operating and reportable segment:

**Six months ended 31 December 2015**

| | International trading and bunkering operation HK$'000 (unaudited) | Marine transportation operation HK$'000 (unaudited) | Upstream natural gas business HK$'000 (unaudited) | Upstream crude oil business HK$'000 (unaudited) | Direct investments HK$'000 (unaudited) | Segment total HK$'000 (unaudited) | Unallocated revenue HK$'000 (unaudited) (Note) | Consolidated HK$'000 (unaudited) |
|---|---|---|---|---|---|---|---|---|
| SEGMENT REVENUE | | | | | | | | |
| External sales | 19,788,050 | 707,762 | 375,650 | 775,990 | 1,065 | 21,648,517 | 694 | 21,649,211 |
| Inter-segment sales | 126,946 | 40,995 | - | - | - | 167,941 | - | 167,941 |
| | 19,914,996 | 748,757 | 375,650 | 775,990 | 1,065 | 21,816,458 | 694 | 21,817,152 |
| SEGMENT RESULTS | 225,346 | 333,079 | 263,702 | (618,150) | (48,686) | 155,291 | | 155,291 |
| Other income, other gains and losses, net | | | | | | | | (30,534) |
| Unallocated corporate expenses | | | | | | | | (56,070) |
| Finance costs | | | | | | | | (404,862) |
| Loss on conversion option derivative embedded in convertible bonds | | | | | | | | (60,806) |
| Loss on issue of convertible bonds | | | | | | | | (36,168) |
| Share of profits of joint ventures | | | | | | | | 8,372 |
| Loss before taxation | | | | | | | | (424,777) |

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results (continued)

**Six months ended 31 December 2014**

| | International trading and bunkering operation HK$'000 (unaudited) | Marine transportation operation HK$'000 (unaudited) | Upstream natural gas business HK$'000 (unaudited) | Upstream crude oil business HK$'000 (unaudited) | Direct investments HK$'000 (unaudited) | Segment total HK$'000 (unaudited) | Unallocated revenue HK$'000 (unaudited) (Note) | Consolidated HK$'000 (unaudited) |
|---|---|---|---|---|---|---|---|---|
| SEGMENT REVENUE | | | | | | | | |
| External sales | 42,799,127 | 603,854 | 566,043 | 910,402 | 6,469 | 44,885,895 | 579 | 44,886,474 |
| Inter-segment sales | 247,767 | 40,333 | – | – | – | 288,100 | – | 288,100 |
| | 43,046,894 | 644,187 | 566,043 | 910,402 | 6,469 | 45,173,995 | 579 | 45,174,574 |
| SEGMENT RESULTS | 171,722 | 102,843 | 436,175 | 357,197 | 17,283 | 1,085,220 | | 1,085,220 |
| Other income, other gains and losses, net | | | | | | | | 6,360 |
| Unallocated corporate expenses | | | | | | | | (66,784) |
| Finance costs | | | | | | | | (322,410) |
| Share of profits of joint ventures | | | | | | | | 508 |
| Profit before taxation | | | | | | | | 702,894 |

Note: Unallocated revenue represents rental income from an investment property which was not reviewed by the CODM during the six months ended 31 December 2015 and 2014.

Segment results represent the loss incurred or profit earned by each segment without allocation of other income, other gains and losses, net (excluding net (losses) gains on securities held-for-trading, heating and deviation income and impairment loss recognised on mining interests and property, plant and equipment), loss on conversion option derivative embedded in convertible bonds, loss on issue of convertible bonds, central administration costs, directors' emoluments at the head office, share of profits of joint ventures, finance costs and income tax. This is the measure reported to the CODM for the purposes of resource allocation and performance assessment.

## 4. SEGMENT INFORMATION (CONTINUED)

### Segment revenue and results (continued)

Inter-segment sales are charged at cost.

### Segment assets and liabilities

No segment assets or liabilities are presented other than entity wide disclosures as the CODM does not review segment assets and liabilities. During the six months ended 31 December 2015, assets in relation to upstream crude oil business decreased from approximately HK$7,066,561,000 at 30 June 2015 to approximately HK$5,936,721,000 at 31 December 2015 and the decrease was mainly contributed by an aggregate impairment loss of approximately HK$618,997,000 recognised to certain assets in this segment. Details of the impairment made with respect to the assets of this segment are set out in note 13.

### Other segment information

**Six months ended 31 December 2015**

| | International trading and bunkering operation HK$'000 (unaudited) | Marine transportation operation HK$'000 (unaudited) | Upstream natural gas business HK$'000 (unaudited) | Upstream crude oil business HK$'000 (unaudited) | Direct investments HK$'000 (unaudited) | Segment total HK$'000 (unaudited) | Unallocated revenue HK$'000 (unaudited) | Consolidated HK$'000 (unaudited) |
|---|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | | | | | | |
| Amortisation of mining interests | - | - | - | (345,758) | - | (345,758) | - | (345,758) |
| Depreciation of property, plant and equipment | (13,051) | (106,158) | (29,147) | (204,881) | (763) | (354,000) | (482) | (354,482) |
| Impairment loss recognised on mining interests | - | - | - | (450,264) | - | (450,264) | - | (450,264) |
| Impairment loss recognised on property, plant and equipment | - | - | - | (168,733) | - | (168,733) | - | (168,733) |
| Net gains on derivative financial instruments | 493,789 | - | - | - | - | 493,789 | - | 493,789 |
| Net losses on securities held-for-trading | - | - | - | - | (49,633) | (49,633) | - | (49,633) |
| Net unrealised gains on fuel, gas and crude oil inventories (except for those produced from upstream crude oil business) | 15,854 | - | - | - | - | 15,854 | - | 15,854 |

## 4. SEGMENT INFORMATION (CONTINUED)

### Other segment information (continued)

**Six months ended 31 December 2014**

| | International trading and bunkering operation HK$'000 (unaudited) | Marine transportation operation HK$'000 (unaudited) | Upstream natural gas business HK$'000 (unaudited) | Upstream crude oil business HK$'000 (unaudited) | Direct investments HK$'000 (unaudited) | Segment total HK$'000 (unaudited) | Unallocated revenue HK$'000 (unaudited) | Consolidated HK$'000 (unaudited) |
|---|---|---|---|---|---|---|---|---|
| Amounts included in the measure of segment profit or loss: | | | | | | | | |
| Amortisation of mining interest | – | – | – | (206,155) | – | (206,155) | – | (206,155) |
| Depreciation of property, plant and equipment | (6,728) | (121,589) | (41,400) | (193,689) | (836) | (364,242) | (682) | (364,924) |
| Net gains on derivative financial instruments | 1,555,492 | – | – | – | – | 1,555,492 | – | 1,555,492 |
| Net gains on securities held-for-trading | – | – | – | – | 11,121 | 11,121 | – | 11,121 |
| Net unrealised losses on fuel, gas and crude oil inventories (except for those produced from upstream crude oil business) | (317,278) | – | – | – | – | (317,278) | – | (317,278) |

## 5. OTHER INCOME, OTHER GAINS AND LOSSES, NET

| | Six months ended 31 December 2015 HK$'000 (unaudited) | 2014 HK$'000 (unaudited) |
|---|---|---|
| **Other income** | | |
| Interest income on bank deposits | **1,129** | 1,489 |
| Heating and deviation income | **–** | 1,651 |
| Commission fee received from a related company in relation to oil derivative trading (note 23) | **500** | – |
| | **1,629** | 3,140 |
| **Other gains and losses, net** | | |
| Net foreign exchange loss | **(37,490)** | (6,979) |
| Impairment loss recognised on mining interests (note 13) | **(450,264)** | – |
| Impairment loss recognised on property, plant and equipment (note 13) | **(168,733)** | – |
| Net (losses) gains on securities held-for-trading | **(49,633)** | 11,121 |
| Others | **5,327** | 12,612 |
| | **(700,793)** | 16,754 |

## 6. OTHER EXPENSES

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Professional fees (Note a) | **11,599** | 47,070 |
| Brokerage and commission expenses | **50,210** | 43,873 |
| Other expenses in relation to derivative trading and bank services | **19,594** | 21,836 |
| Compensation expense in respect of a legal case (Note b) | **38,743** | – |
| | **120,146** | 112,779 |

Notes:

(a) Professional fees represent fees for general legal advisory services, consultancy fee for borrowings and fee for advisory services on investment projects. During the six months ended 31 December 2014, an aggregate amount of approximately HK$12,677,000 related to merger and acquisition projects.

(b) During the six months ended 31 December 2015, a subsidiary of the Group was in legal proceedings with its supplier regarding the fulfillment of terms and actual performance of the oil storage services. On 17 February 2016, the district court of Rotterdam made a final judgement and ruled that the subsidiary is required to pay certain damages to the supplier.

## 7. FINANCE COSTS

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Imputed interest expense on loans from a related company (note 25) | **174,133** | 99,776 |
| Imputed interest expense on convertible notes (Note) | **–** | 15,702 |
| Imputed interest expense on convertible bonds (note 21) | **9,238** | – |
| Unwinding of discounting effect of provision for restoration and environmental costs | **5,989** | 4,855 |
| Interest expense on bank borrowings | **238,636** | 189,665 |
| Interest expense on other borrowing | **–** | 27,642 |
| Total | **427,996** | 337,640 |
| Less: Amount capitalised | **(23,134)** | (15,230) |
| | **404,862** | 322,410 |

Note: The convertible notes issued in 2009 to Canada Foundation Limited, the immediate and ultimate holding company of the Company, were fully converted into ordinary shares during the year ended 30 June 2015.

Borrowing costs capitalised during the six months ended 31 December 2015 of approximately HK$23,134,000 (six months ended 31 December 2014: HK$15,230,000) arose on the general borrowing pool calculated by applying a capitalisation rate of 1.63% (six months ended 31 December 2014: 1.96%) per annum to the expenditure on qualifying assets. Borrowing costs were capitalised as part of the construction in progress in respect of oil storage facilities, gas properties and buildings.

## 8. (LOSS) PROFIT BEFORE TAXATION

(Loss) profit before taxation has been arrived at after charging (crediting):

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Amount of inventories recognised as expense | **19,762,046** | 42,712,370 |
| Net unrealised (gains) losses on fuel, gas and crude oil inventories, except for those produced from upstream oil business (included in cost of sales and services) | **(15,854)** | 317,278 |
| Loss on disposal of property, plant and equipment | **733** | – |
| Amortisation of mining interests (included in cost of sales and services) | **345,758** | 206,155 |
| Depreciation of property, plant and equipment | | |
| – vessels (included in cost of sales and services) | **114,268** | 124,310 |
| – gas properties (included in cost of sales and services) | **28,991** | 41,215 |
| – oil properties (included in cost of sales and services) | **210,694** | 197,080 |
| – others | **6,812** | 5,770 |
| | **360,765** | 368,375 |
| Less: Amount capitalised to inventories | **(6,283)** | (3,451) |
| | **354,482** | 364,924 |

## 9. INCOME TAX CHARGE

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Current tax charge for the period: | | |
| Hong Kong Profits Tax | **–** | – |
| PRC Enterprise Income Tax ("EIT") | **(91,743)** | (147,565) |
| Singapore Income Tax | **(611)** | (10) |
| Overprovision in prior years: | | |
| PRC EIT, net (Note) | **–** | 9,523 |
| Singapore Income Tax, net | **148** | 211 |
| | **(92,206)** | (137,841) |
| Deferred taxation: | | |
| Current period | **(5,973)** | (3,912) |
| Income tax charge for the period | **(98,179)** | (141,753) |

Note: During the six months ended 31 December 2014, there was an overprovision in the EIT for a subsidiary operating in Tuzi gas field in prior years amounting to approximately HK$9,841,000. Prior to year ended 30 June 2014, the Group was subject to EIT in accordance with the Law of the People's Republic of China on Enterprise Income Tax (the "EIT Law"), calculated at 25% on the taxable profits earned from sales of natural gas and condensate from Tuzi gas fields. During the six months ended 31 December 2014, the Group applied for and was granted a concessionary tax rate of 15% in which the Group can enjoy the concessionary tax rate retrospectively from 31 December 2013 to 31 December 2020 for a subsidiary operating in Tuzi gas field. Accordingly, the Group recorded the amount of tax to be refunded as overprovision in previous years.

Under the EIT Law, the tax rate of the PRC subsidiaries is 25% from 1 January 2008 onwards except for two of the subsidiaries generating taxable profits from sales of natural gas and condensate from Dina and Tuzi gas fields which enjoy the concessionary tax rate of 15%.

## 9. INCOME TAX CHARGE (CONTINUED)

On 9 November 2015, Tianjin State Administration of Taxation Bureau (TJSAT) issued a tax assessment letter regarding the tax treatment on the interests acquired in the Bohai Bay Projects (as defined in note 27). Pursuant to the tax assessment letter, after the Group acquired the entire equity interest in Kerr-McGee China Petroleum Ltd ("KMCPL") (the "Acquisition"), the Group can enjoy certain tax benefits if the seller settles the related EIT on the gain from the disposal of its entire interests in Bohai Bay Projects which KMCPL possessed. The seller settled the related EIT on 8 December 2015. As a result, the Group is entitled to enjoy a tax base of approximately HK$5,633,398,000, being the cost of the mining interests arising from the Acquisition, retrospectively from the date of the Acquisition (i.e. 8 August 2014). On 29 January 2016, TJSAT issued a confirmation letter which clarifies that KMCPL is eligible to claim the cost of the mining interests as tax deduction according to the applicable EIT Law which states such cost can be amortised on straight line basis for not less than eight years.

At the end of the reporting period, the Group has deductible temporary differences which mainly arise from (i) the difference between carrying amounts of the mining interests of approximately HK$4,253,748,000 and the tax base of approximately HK$5,633,398,000 and (ii) impairment loss of approximately HK$168,733,000 recognised on the property, plant and equipment. As the upstream crude oil business segment, which KMCPL operates and the deductible temporary difference originates, has recorded a segment loss of approximately HK$618,150,000 and there is uncertainty about future crude oil price which affects future profit to be earned by KMCPL, no deferred tax asset has been recognised in relation to such deductible temporary differences as it is not probable that taxable profit will be available against which the deductible temporary differences can be utilised within the allowable period of time.

Hong Kong Profits Tax and Singapore Income Tax are recognised based on the best estimate of the weighted average annual income tax rate of the different tax jurisdictions for the period. The annual tax rate used in respect of Hong Kong Profits Tax is 16.5% for both periods. No provision for the Hong Kong Profits Tax was provided for the Group's Hong Kong subsidiaries as those subsidiaries have no assessable profits or suffered from tax losses for both periods.

The Singapore Income Tax is determined by applying the Singapore tax rate of 17%.

With the Global Trader Program incentive awarded by the Inland Revenue Authority of Singapore to the Group for the five years ending 30 June 2018, certain qualified income (e.g. income from marine bunkering operation and sales of petroleum products) generated during the year from trading fuel and oil under the international trading and bunkering segment of the Group has been charged at a concessionary tax rate of 5%.

The Group has been awarded the Approved International Shipping Enterprise Incentive ("AIS") status with effect from 1 April 2011 for an initial period for 10 years. With the AIS status, the Group's profits from qualifying activities (e.g. qualifying shipping operations under Section 13F of the Singapore Income Tax Act) are exempt from tax.

Taxation arising in other jurisdictions are calculated at the rates prevailing in the relevant jurisdictions.

## 10. DIVIDEND

Final dividend for the year ended 30 June 2015 of HK2 cents per share was paid during the six months ended 31 December 2015. Other than that, no dividends were paid, declared or proposed during the six months ended 31 December 2015 and 2014. The directors of the Company do not recommend the payment of an interim dividend for the six months ended 31 December 2015.

## 11. (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:

**(Loss) earnings**

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| (Loss) earnings for the purpose of basic (loss) earnings per share ((loss) profit for the period attributable to the owners of the Company) | **(522,956)** | 561,141 |
| Effect of dilutive potential ordinary shares: | | |
| Interest on convertible notes (net of tax) | **N/A** | 13,111 |
| (Loss) earnings for the purpose of diluted (loss) earnings per share | **(522,956)** | 574,252 |

## 11. (LOSS) EARNINGS PER SHARE (CONTINUED)

**Number of shares**

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **(unaudited)** | (unaudited) |
| Weighted average number of ordinary shares in issue less shares held under share award scheme during the period for the purpose of basic (loss) earnings per share | **10,120,379,599** | 8,752,598,266 |
| Effect of dilutive potential ordinary shares: | | |
| Convertible notes | **N/A** | 799,979,333 |
| Unvested share award | **N/A** | 1,043,954 |
| Weighted average number of ordinary shares for the purpose of diluted (loss) earnings per share | **10,120,379,599** | 9,553,621,553 |

For the six months ended 31 December 2015, the computation of the diluted loss per share did not assume the conversion of outstanding convertible bonds and the effect of unvested share award as they would result in a decrease in loss per share.

For the six months ended 31 December 2014, the computation of the diluted earnings per share did not assume the exercise of the share options granted since the exercise price of the share options outstanding was higher than average market price for shares during the period.

## 12. MOVEMENTS IN PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTY

During the six months ended 31 December 2015, total additions to property, plant and equipment were approximately HK$434,315,000 (six months ended 31 December 2014: HK$2,399,698,000). The additions during the current interim period mainly comprised of construction in progress which were mainly wells and platforms in relation to upstream crude oil business and oil storage facilities in the PRC of approximately HK$358,166,000 (six months ended 31 December 2014: HK$272,039,000). The additions during the six months ended 31 December 2014 also included property, plant and equipment which were mainly wells, platforms and pipelines in relation to upstream crude oil business of approximately HK$1,779,306,000 acquired through the acquisition of a subsidiary. Details of the acquisition are set out in note 27.

At 31 December 2015 and 2014, the Group's investment property was fair valued by the management by reference to recent market evidence of transaction prices for similar properties in similar location and condition. No valuation was performed by independent qualified professional valuers not connected to the Group in both periods. There is no change in fair value of the investment property for the current period and prior period.

## 13. MINING INTERESTS

| | HK$'000 |
|---|---|
| At 30 June 2015 (audited) | 5,050,590 |
| Amortisation | (345,758) |
| Impairment loss recognised | (450,264) |
| Exchange realignment | (820) |
| At 31 December 2015 (unaudited) | 4,253,748 |

Mining interests represent the interests of the Group for extraction of crude oil from the contract areas 04/36 and 05/36 (see note 27) until September 2024 and January 2026 (the "Contract Periods") respectively, which are the time that all oil reserves are expected to be extracted respectively. The mining interests recognised upon the acquisition of a subsidiary during the six months ended 31 December 2014 (see note 27) have useful life covering the Contract Periods. The mining interests are amortised using the units-of-production method utilising the proved and probable reserves that are expected to be extracted during the Contract Period as the depletion base.

The recoverable amount of the cash generating unit ("CGU"), which constitutes the upstream crude oil operating segment of the Group to which the mining interests and property, plant and equipment relating to the upstream crude oil business belong, is determined based on a value-in-use calculation which uses cash flow projections based on financial budgets (including capital expenditure) approved by the Joint Management Committee; which was set up by appointing an equal number of representatives with a maximum number of 3 representatives from each of CNOOC and the Contractors (as defined in note 27) covering a period until the end of the Contract Periods at a pre-tax discount rate of 17.11% which reflects the current market assessment at 31 December 2015 on time value of money and risks specific to upstream crude oil business. Cash flow projections during the production period are based on development plan and production volume estimated by the independent competent person at 1 January 2014 and future crude oil prices based on the management's expectations of price in the global petroleum markets. The expectations of the future crude oil prices are developed by reference to, after a price discount of US$3.00 per barrel, (i) the market prices of Brent crude oil futures at 31 December 2015, which ranged from US$40.59 to US$47.58 per barrel with expiry dates from January 2016 to December 2017, (ii) average of market prices of Brent crude oil futures with expiry dates from January 2018 to December 2018 and future oil prices forecast quoted from research reports released by international oil brokers and consultants for year 2018 which amounted to US$62.93 per barrel, and (iii) the average of the future oil prices forecast quoted from research reports released by international oil brokers and consultants, which ranged from US$80.54 per barrel for year 2019 to US$91.13 per barrel for the year 2025 (collectively referred to "Forecast Oil Prices"). The CGU has a limited contractual period and the projection period is based on the remaining contractual period. The key parameters applied in this projection could not be estimated simply based on the forecast period of five years and adjusted with the expected growth rate as the cycle of oil price fluctuation is more than five years and the construction of wells for this CGU is planned for particular periods of time, rather than evenly throughout the remaining contractual period. The expected extraction of crude oil is budgeted based on the overall plan of the future construction of wells. Accordingly, the directors of the Company consider that its forecasting method, projection period based on remaining contractual period, is more reliable than a five-year-projection model method.

## 13. MINING INTERESTS (CONTINUED)

The recoverable amount of the CGU at 31 December 2015 has been arrived at on the basis of valuation performed by GW Financial Advisory Services Limited, an independent qualified professional valuer not connected to the Group.

During the six months ended 31 December 2015, in view of continuous downward tendency of global oil price and uncertainty about oil price in future, the directors of the Company, after considering the results of valuation performed by the valuer, had determined that the present value of the future cash flows expected to be generated from the CGU was approximately HK$5,632,962,000, which is less than its carrying amount, and an impairment loss of HK$618,997,000 has been recognised for the CGU with amounts of HK$450,264,000 allocated to mining interests and HK$168,733,000 allocated oil properties. These impairment losses are included in "other gains and losses, net" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

The sensitivity analysis below has been determined by the directors of the Company based on the exposure of changes in the discount rate and Forecast Oil Prices to the recoverable amount of the CGU at 31 December 2015. A 50 basis point increase and US$5 decrease are used which represent directors of the Company's assessment on reasonably possible changes in discount rate and Forecast Oil Prices respectively.

If the discount rate had been 50 basis point higher and all other key assumptions were held constant, the recoverable amount of the CGU at 31 December 2015 would be decreased by approximately HK$105,583,000 and impairment loss allocated to mining interests and oil properties would be increased by approximately HK$76,802,000 and HK$28,781,000 respectively. If the Forecast Oil Prices had been US$5 lower and all other key assumptions were held constant, the recoverable amount of the CGU at 31 December 2015 would be decreased by approximately HK$631,106,000 and impairment loss allocated to mining interests and oil properties would be increased by approximately HK$459,072,000 and HK$172,034,000 respectively.

## 14. DEPOSITS PAID FOR ACQUISITION OF PROPERTY, PLANT AND EQUIPMENT

At 31 December 2015, included in the deposits paid for acquisition of property, plant and equipment is an amount of approximately HK$54,495,000 (30 June 2015: HK$57,110,000) which represents deposits paid for the acquisition of equipments to be used for the construction of oil storage facilities, an amount of approximately HK$520,856,000 (30 June 2015: nil) which represents deposits paid to a related company for acquisition of 11 bunker barges and an amount of approximately HK$474,041,000 (30 June 2015: nil) which represents deposits paid for acquisition of leasehold land and building. Details of the deposits paid for the acquisition of 11 bunker barges from a related company are set out in note 23.

## 15. TRADE DEBTORS AND OTHER DEBTORS, PREPAYMENTS AND DEPOSITS

The Group allows an average credit period of 30 to 45 days to its customers from international trading and bunkering operation, 60 days to the sole customer, a subsidiary of China National Petroleum Corporation ("CNPC"), on sales of natural gas and condensates, 30 to 90 days to its marine transportation customers and 30 days to the sole customer, CNOOC China Limited ("CNOOC"), on sales of crude oil. CNPC and CNOOC are the interest owners of the Group's joint operations at the Tuzi and Dina natural gas fields and Bohai Bay oil fields respectively.

The following is an ageing analysis of trade debtors (net of allowance or bad and doubtful debts) presented based on the revenue recognition date at the end of the reporting period:

| | **At 31 December 2015 HK$'000 (unaudited)** | At 30 June 2015 HK$'000 (audited) |
|---|---|---|
| 0–30 days | **2,829,878** | 5,008,446 |
| 31–60 days | **820,907** | 1,803,743 |
| 61–90 days | **569,832** | 7,340 |
| Over 90 days | **63,021** | 52,190 |
| | **4,283,638** | 6,871,719 |

At 31 December 2015, included in other debtors, prepayments and deposits is an amount of approximately HK$3,100,336,000 (30 June 2015: nil) which represents prepayments made to a related company for purchase of fuel oil in the coming four months period starting from 1 March 2016 and the remaining balance represents prepayments for daily operating expenses. Details of the prepayments made to a related company for purchase of fuel oil are set out in note 23.

## 16. SECURITIES HELD-FOR-TRADING

| | At 31 December 2015 HK$'000 (unaudited) | At 30 June 2015 HK$'000 (audited) |
|---|---|---|
| Equity securities, at fair value listed in Hong Kong | 84,528 | 138,916 |

## 17. BANK BORROWINGS

During the six months ended 31 December 2015, the Group obtained several new bank loans from various banks amounting to approximately HK$12,881,514,000 (six months ended 31 December 2014: HK$12,602,463,000) and repaid approximately HK$10,695,000,000 (six months ended 31 December 2014: HK$8,579,564,000). The new bank loans carry variable interest rates ranging from 2.54% to 5.39% (six months ended 31 December 2014: 1.51% to 5.43%) per annum and secured by the Group's property, plant and equipment and bank deposits.

At 31 December 2015, the outstanding new bank loans raised during current interim period ("New Bank Loans") carry variable interest rates ranging from 2.54% to 5.39% (six months ended 31 December 2014: 1.54% to 5.43%) per annum.

The maturity profile of outstanding New Bank Loans are presented below:

| | At 31 December 2015 HK$'000 (unaudited) |
|---|---|
| Carrying amount payable: | |
| Within one year | 5,441,340 |
| More than one year, but not exceeding two years | 139,508 |
| More than two years, but not exceeding five years | 720,825 |
| | 6,301,673 |

Included in the New Bank Loans outstanding at 31 December 2015 is an amount of approximately HK$113,276,000 (six months ended 31 December 2014: nil) denominated in Renminbi and all (six months ended 31 December 2014: all) the remaining balances are denominated in United States Dollars.

## 18. TRADE CREDITORS AND OTHER CREDITORS AND ACCRUED CHARGES

The following is an ageing analysis of trade creditors presented based on invoice date at the end of the reporting period:

| | At 31 December 2015 HK$'000 (unaudited) | At 30 June 2015 HK$'000 (audited) |
|---|---|---|
| 0–30 days | 2,146,740 | 3,069,184 |
| 31–60 days | 15,595 | 26,734 |
| 61–90 days | 1,078 | 3,549 |
| Over 90 days | 32,204 | 10,105 |
| | 2,195,617 | 3,109,572 |

The average credit period for purchase of fuel oil is 30 days. The average credit period for direct costs incurred in the upstream natural gas business is 60 days. The Group has financial risk management policies in place to ensure all payables are paid within the credit time frame.

Apart from balances disclosed above, the balance of approximately HK$4,785,000 classified as trade payable to a related company at 30 June 2015 was trade in nature (see note 23). The amount was aged within 45 days at 30 June 2015 with credit terms of 45 days granted to the Group.

## 18. TRADE CREDITORS AND OTHER CREDITORS AND ACCRUED CHARGES (CONTINUED)

The following is the analysis of other creditors and accrued charges:

| | At 31 December 2015 HK$'000 (unaudited) | At 30 June 2015 HK$'000 (audited) |
|---|---|---|
| Other payables and accrued charges to independent third parties for purchase of property, plant and equipment (Note a) | 1,178,961 | 1,391,757 |
| Other tax payable for goods and services in relation to sales made in Singapore (Note a) | 14,301 | 11,118 |
| Special petroleum levy ("SPL") payable (Note b) | 12 | 177 |
| Amounts due to the Interest Owners (as defined in note 27) (Note a) | 219,990 | 208,328 |
| Payable to the PRC government (Note c) | 76,220 | 79,876 |
| Provision for compensation expense in respect of a legal case (Note 6) | 38,743 | – |
| Others | 128,589 | 62,183 |
| | 1,656,816 | 1,753,439 |

Notes:

(a) Amounts are unsecured and non-interest bearing.

(b) A subsidiary of the Group is required to pay SPL imposed by the Ministry of Finance of the PRC. SPL is charged based on the volume of crude oil sold by the subsidiary at progressive ad valorem rate, which varies from 20% to 40% of the monthly weighted average sales price of crude oil sold by the subsidiary.

(c) Amount represents payable to the PRC government for the acquisition of land use right. The amount is unsecured, non-interest bearing and repayable on demand.

## 19. DERIVATIVE FINANCIAL INSTRUMENTS

Derivative financial instruments of the Group comprised of long and short positions in mainly oil and gasoline futures, swap and forward contracts, including ICE Futures (mainly Brent, Gasoil and WTI), Nymex Futures (mainly Gasoline, Heating Oil, WTI), DME Futures (mainly Oman Crude Oil), ICE Swaps (mainly Fuel Oil, Gasoil and Crude Oil), Nymex Swaps (mainly Fuel Oil and Crude Oil) and all the futures and swap contracts are publicly traded in the active markets. Forward contracts in relation to physical delivery of fuel oil and crude oil are directly dealt with some counterparties.

During the six months ended 31 December 2015, the net gain on derivative financial instruments of approximately HK$493,789,000 (six months ended 31 December 2014: net gain of HK$1,555,492,000) was credited to profit or loss.

| Type of contracts | Fair value<br>HK$'000 | Contractual amount<br>US$'000 | Expiry date |
|---|---|---|---|
| **At 31 December 2015 (unaudited)** | | | |
| Derivative financial assets | | | |
| Futures | 299 | 2,052 | 01.02.2016 to 29.02.2016 |
| Swaps | 408,983 | 224,774 | 01.01.2016 to 30.09.2016 |
| Forwards | 163,177 | 323,024 | 01.01.2016 to 30.09.2016 |
| | 572,459 | | |
| Derivative financial liabilities | | | |
| Futures | 1,694 | 8,896 | 01.01.2016 to 31.01.2016 |
| Swaps | 284,336 | 210,276 | 01.01.2016 to 30.09.2016 |
| Forwards | 166,310 | 235,681 | 01.01.2016 to 31.07.2016 |
| | 452,340 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The major terms of these contracts are as follows:

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 31 December 2015 (unaudited)** | | | |
| Derivative financial assets | | | |
| Futures (short position) | | | |
| – Gasoil | 2,052 | 01.02.2016 to 29.02.2016 | US$37.99 to US$38.04 per barrel |
| Swaps (long position) | | | |
| – Gasoil | 578 | 01.01.2016 to 31.01.2016 | US$3.83 to US$3.86 per gallon |
| – Fuel oil | 8,022 | 01.01.2016 to 30.09.2016 | US$154.75 to US$165.50 per metric ton |
| – Crude oil | 7,442 | 01.02.2016 to 31.03.2016 | US$32.70 to US$33.40 per barrel |
| Swaps (short position) | | | |
| – Gasoil | 36,850 | 01.01.2016 to 31.05.2016 | US$0.92 per gallon to US$2.10 per gallon and US$37.99 per barrel to US$57.70 per barrel |
| – Fuel oil | 88,945 | 01.01.2016 to 30.09.2016 | US$165.75 to US$395.00 per metric ton |
| – Crude oil | 82,937 | 01.01.2016 to 31.03.2016 | US$34.00 to US$48.73 per barrel |
| | 224,774 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 31 December 2015 (unaudited)** | | | |
| Derivative financial assets | | | |
| Forwards (long position) – fixed price | | | |
| – Fuel oil | 803 | 01.01.2016 to 31.01.2016 | US$160.50 per metric ton |
| Forwards (long position) – variable price | | | |
| – Fuel oil | 6,423 | 01.01.2016 to 31.01.2016 | Note |
| Forwards (short position) – fixed price | | | |
| – Gasoil | 17 | 01.01.2016 to 31.01.2016 | US$342.00 per metric ton |
| – Fuel oil | 2,264 | 01.01.2016 to 31.01.2016 | US$163.00 to US$203.00 per metric ton |
| – Crude oil | 264,961 | 01.01.2016 to 29.02.2016 | US$245.58 to US$306.86 per metric ton |
| Forwards (short position) – variable price | | | |
| – Gasoil | 1,553 | 01.01.2016 to 31.01.2016 | Note |
| – Fuel oil | 47,003 | 01.01.2016 to 30.09.2016 | Note |
| | 323,024 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 31 December 2015 (unaudited)** | | | |
| Derivative financial liabilities | | | |
| Futures (long position) | | | |
| – Gasoil | 8,896 | 01.01.2016 to 31.01.2016 | US$328.25 to US$342.25 per metric ton |
| Swaps (short position) | | | |
| – Gasoil | 1,222 | 01.01.2016 to 30.09.2016 | US$0.05 to US$1.60 per gallon |
| – Fuel oil | 1,918 | 01.02.2016 to 31.03.2016 | US$36.80 to US$37.00 per barrel |
| – Crude oil | 10,817 | 01.02.2016 to 29.02.2016 | US$32.90 to US$33.83 per barrel |
| Swaps (long position) | | | |
| – Gasoil | 37,718 | 01.01.2016 to 31.03.2016 | US$11.71 to US$58.56 per gallon |
| – Fuel oil | 85,475 | 01.01.2016 to 31.03.2016 | US$165.00 to US$356.00 per metric ton |
| – Crude oil | 73,126 | 01.02.2016 to 29.02.2016 | US$31.22 to US$40.14 per barrel |
| | 210,276 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 31 December 2015 (unaudited)** | | | |
| Derivative financial liabilities | | | |
| Forwards (long position) – fixed price | | | |
| – Gasoil | 17 | 01.01.2016 to 31.01.2016 | US$340.00 per metric ton |
| – Fuel oil | 500 | 01.01.2016 to 31.01.2016 | US$166.50 per metric ton |
| Forwards (long position) – variable price | | | |
| – Fuel oil | 7,416 | 01.01.2016 to 31.01.2016 | Note |
| – Crude oil | 170,717 | 01.01.2016 to 31.03.2016 | Note |
| Forwards (short position) – fixed price | | | |
| – Gasoil | 432 | 01.01.2016 to 31.03.2016 | US$305.78 to US$333.05 per metric ton |
| – Fuel oil | 7,200 | 01.01.2016 to 31.07.2016 | US$159.00 to US$317.50 per metric ton |
| Forwards (short position) – variable price | | | |
| – Gasoil | 7,905 | 01.01.2016 to 31.03.2016 | Note |
| – Fuel oil | 8,584 | 01.01.2016 to 31.07.2016 | Note |
| – Crude oil | 32,910 | 01.01.2016 to 31.01.2016 | Note |
| | 235,681 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| Type of contracts | Fair value HK$'000 | Contractual amount US$'000 | Expiry date |
|---|---|---|---|
| **At 30 June 2015 (audited)** | | | |
| Derivative financial assets | | | |
| Futures | 15,113 | 116,899 | 01.07.2015 to 29.02.2016 |
| Swaps | 139,270 | 548,058 | 01.07.2015 to 31.12.2015 |
| Forwards | 123,357 | 260,729 | 01.07.2015 to 31.12.2015 |
| | 277,740 | | |
| Derivative financial liabilities | | | |
| Futures | 20,306 | 99,550 | 01.08.2015 to 29.02.2016 |
| Swaps | 113,338 | 345,573 | 01.07.2015 to 31.12.2015 |
| Forwards | 103,134 | 159,943 | 01.07.2015 to 31.12.2015 |
| | 236,778 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

The major terms of these contracts are as follows:

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 30 June 2015 (audited)** | | | |
| Derivative financial assets | | | |
| Futures (long position) | | | |
| – Heating oil | 26,946 | 01.12.2015 to 31.01.2016 | US$1.98 to US$2.00 per gallon |
| Futures (short position) | | | |
| – Gasoil | 41,280 | 01.07.2015 to 31.08.2015 | US$562.50 to US$600.50 per metric ton |
| – Crude oil | 743 | 01.08.2015 to 31.08.2015 | US$61.89 per barrel |
| – Heating oil | 47,930 | 01.12.2015 to 29.02.2016 | US$1.71 to US$1.79 per gallon |
| | 116,899 | | |
| Swaps (short position) | | | |
| – Gasoil | 28,248 | 01.07.2015 to 30.09.2015 | US$510.55 to US$865.17 per metric ton |
| – Fuel oil | 223,420 | 01.07.2015 to 31.12.2015 | US$330.00 to US$395.00 per metric ton |
| – Crude oil | 296,390 | 01.07.2015 to 31.08.2015 | US$58.06 to US$67.50 per barrel |
| | 548,058 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 30 June 2015 (audited)** | | | |
| Derivative financial assets | | | |
| Forwards (long position) – fixed price | | | |
| – Gasoil | 65 | 01.07.2015 to 31.07.2015 | US$545.00 per metric ton |
| Forwards (long position) – variable price | | | |
| – Fuel oil | 44,569 | 01.07.2015 to 31.07.2015 | Note |
| – Crude oil | 83,700 | 01.07.2015 to 31.08.2015 | Note |
| Forwards (short position) – fixed price | | | |
| – Gasoil | 2,541 | 01.07.2015 to 31.07.2015 | US$344.00 to US$568.50 per metric ton |
| – Fuel oil | 7,310 | 01.07.2015 to 31.07.2015 | US$365.50 per metric ton |
| Forwards (short position) – variable price | | | |
| – Fuel oil | 39,404 | 01.07.2015 to 31.12.2015 | Note |
| – Crude oil | 83,140 | 01.07.2015 to 31.08.2015 | Note |
| | 260,729 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 30 June 2015 (audited)** | | | |
| Derivative financial liabilities | | | |
| Futures (long position) | | | |
| – Gasoil | 24,600 | 01.09.2015 to 31.12.2015 | US$600.00 to US$631.75 per metric ton |
| – Fuel oil | 3,901 | 01.08.2015 to 31.08.2015 | US$466.15 to US$473.08 per metric ton |
| – Crude oil | 758 | 01.08.2015 to 31.08.2015 | US$63.12 per barrel |
| – Heating oil | 39,724 | 01.12.2015 to 29.02.2016 | US$1.92 to US$2.02 per gallon |
| Futures (short position) | | | |
| – RBOB gasoline | 30,567 | 01.12.2015 to 29.02.2016 | US$1.68 to US$1.73 per barrel |
| | 99,550 | | |
| Swaps (long position) | | | |
| – Gasoil | 18,928 | 01.07.2015 to 31.07.2015 | US$550.52 to US$587.28 per metric ton |
| – Fuel oil | 200,785 | 01.07.2015 to 31.12.2015 | US$313.50 to US$395.75 per metric ton |
| – Crude oil | 125,860 | 01.07.2015 to 30.09.2015 | US$59.64 to US$64.12 per barrel |
| | 345,573 | | |

## 19. DERIVATIVE FINANCIAL INSTRUMENTS (CONTINUED)

| | Contractual amount US$'000 | Expiry date | Strike price |
|---|---|---|---|
| **At 30 June 2015 (audited)** | | | |
| Derivative financial liabilities | | | |
| Forwards (long position) – fixed price | | | |
| – Gasoil | 299 | 01.07.2015 to 31.07.2015 | US$560.00 to US$573.00 per metric ton |
| Forwards (long position) – variable price | | | |
| – Crude oil | 67,981 | 01.07.2015 to 31.08.2015 | Note |
| Forwards (short position) – fixed price | | | |
| – Fuel oil | 1,968 | 01.07.2015 to 31.07.2015 | US$334.00 to US$549.00 per metric ton |
| Forwards (short position) – variable price | | | |
| – Fuel oil | 89,695 | 01.07.2015 to 31.12.2015 | Note |
| | 159,943 | | |

Note: These forward contracts are contracted at variable prices using pricing formula agreed by the Company and the counterparties with reference to average of quoted market prices of the same or similar products in active markets for a period of time plus an agreed premium or discount.

## 20. SHARE CAPITAL

| | Number of shares | Share capital HK$'000 |
|---|---|---|
| Ordinary shares of HK$0.025 each | | |
| Authorised | | |
| At 1 July 2014, 31 December 2014, 30 June 2015 and 31 December 2015 | 40,000,000,000 | 1,000,000 |
| Issued and fully paid | | |
| At 1 July 2015 (audited) and 31 December 2015 (unaudited) | 10,156,494,599 | 253,913 |

The Company acquired its own shares at the Stock Exchange through a trustee appointed under the Company's share award scheme. The number of shares acquired, amounts paid for the acquisitions and number of shares vested are presented below:

| | Number of shares | Amount paid HK$'000 |
|---|---|---|
| At 1 July 2015 (audited) | 27,115,000 | 80,955 |
| Shares purchased | 9,000,000 | 22,147 |
| At 31 December 2015 (unaudited) | 36,115,000 | 103,102 |

Note: There were no shares vested during the six months ended 31 December 2015.

## 21. CONVERTIBLE BONDS

On 16 November 2015, the Company and two investors entered into a convertible bonds subscription agreement and pursuant to which the Company agreed to privately place convertible bonds with aggregate principal amount of US$50,000,000 (equivalent to approximately HK$387,530,000) to these two investors with maturity date on 19 November 2018 (the "Unlisted CB1"). The issue of the Unlisted CB1 was completed on 19 November 2015.

On 16 November 2015, the Company and two financial institutions entered into a convertible bonds supplemental subscription agreement and pursuant to which the Company agreed to issue convertible bonds with aggregate principal amount of US$12,000,000 (equivalent to approximately HK$93,007,000), which would be listed on the Stock Exchange, to these two financial institutions with maturity date on 13 November 2018 (the "Listed CB") and the two financial institutions agreed to subscribe and pay for or procure other subscribers to subscribe and pay for the Listed CB. The issue of the Listed CB was completed on 19 November 2015.

On 9 December 2015, the Company and an investor entered into a convertible bonds subscription agreement and pursuant to which the Company agreed to privately place convertible bonds with aggregate principal amount of US$100,000,000 (equivalent to approximately HK$775,060,000) to this investor with maturity date on 19 November 2018 (the "Unlisted CB2"). The issue of the Unlisted CB2 was completed on 15 December 2015.

All the investors, subscribers and financial institutions mentioned above are independent and not connected to the Group.

The Listed CB, the Unlisted CB1 and the Unlisted CB2 (collectively referred to as the "Convertible Bonds") were issued at par and carried a fixed interest rate of 5% per annum, which was payable semi-annually in arrear from the date of issue. The holders of the Convertible Bonds have the option to convert them into the Company's ordinary shares at a conversion price of HK$2.50 per share, subject to conversion price adjustments detailed below, at any time after the date of issue and 7 days prior to their respective maturity date. The converted shares shall rank pari passu in all respects with all other existing shares outstanding at the date of the conversion.

No early redemption at the option of the holders of the Convertible Bonds is allowed except when (i) the shares of the Company cease to be listed or admitted to trading, or when the shares of the Company are suspended from trading for a period equal to or exceeding 30 consecutive trading days; or (ii) there is a change of control over the Company as set out in the respective subscription agreements and trust deed. The Convertible Bonds can be redeemed by the Company at an early redemption amount, which represents a gross yield of 9% per annum calculated in accordance with terms and conditions as set out in the respective subscription agreements and trust deed, together with interest accrued but unpaid on the redemption date. Therefore, the issuer's early redemption option is accounted for as not closely related to the liability host component.

## 21. CONVERTIBLE BONDS (CONTINUED)

The initial conversion price of the Convertible Bonds is subject to anti-dilutive adjustments due to change in capital structure of the Company (including share consolidation, share subdivision, capitalisation issue and other events which have dilutive effects on the issued share capital of the Company as set out in the respective subscription agreements). Furthermore, if the volume weighted average price of the shares of the Company for each trading day during a period of any 20 consecutive trading days on or after a predefined date (i.e. 13 May 2016 for the Listed CB and 19 May 2016 for the Unlisted CB1&2) is less than the applicable conversion price, the conversion price shall be reset downwards to the average market price (the "Conversion Price Reset Option"), subject to the minimum floor price of HK$2.216 (subject to adjustment for dilutive events). Any reset to the conversion price shall be downward only and the conversion price may be reset multiple times.

Save as disclosed above, the terms and definitions of the Convertible Bonds are set out in the respective subscription agreements and disclosed in the Company's announcements on the Stock Exchange.

In the presence of the Conversion Price Reset Option, the Convertible Bonds may not exchange a fixed number of the Company's own equity instrument for a fixed amount of cash. Therefore, the components of the Convertible Bonds are accounted for separately as liability component, issuer's early redemption option not closely related to the liability host component and conversion option derivative. The fair values of the liability component and the issuer's early redemption option and conversion option derivative of the Convertible Bonds were determined at the respective date of issue. The liability component represented the present value of the contractual stream of future cash flows discounted using the prevailing market interest rate of similar non-convertible instruments and carried at amortised cost. The effective interest rates of the liability component of the Listed CB, the Unlisted CB1 and the Unlisted CB2 are 12.75%, 12.78% and 13% respectively. Subsequent to the initial recognition, the liability component is carried at amortised cost while the issuer's early redemption option and the conversion option derivative embedded in the Convertible Bonds are measured at fair value, with changes in fair value recognised in profit or loss.

## 21. CONVERTIBLE BONDS (CONTINUED)

The components for the issue of the Convertible Bonds and their movements for the period are set out below:

| | Gross proceeds HK$'000 | Direct transaction costs HK$'000 | Liability components HK$'000 | Conversion option derivatives HK$'000 | Loss on issue of convertible bonds HK$'000 |
|---|---|---|---|---|---|
| At 19 November 2015 (date of issue of the Listed CB and the Unlisted CB1) | 480,537 | (2,948) | (386,057) | (127,700) | (36,168) |
| At 15 December 2015 (date of issue of the Unlisted CB2) | 775,060 | (4,754) | (622,112) | (148,194) | – |
| Effective interest expense recognised in profit or loss | – | – | (9,238) | – | – |
| Changes in fair value | – | – | – | (60,806) | – |
| At 31 December 2015 (unaudited) | 1,255,597 | (7,702) | (1,017,407) | (336,700) | (36,168) |

The fair value measurement was carried out by GW Financial Advisory Services Limited, an independent qualified professional valuer not connected to the Group.

Fair values of the conversion option derivative and the issuer's early redemption option embedded in the Convertible Bonds at the date of issue and at 31 December 2015 are determined by using Monte Carlo simulation option pricing model by the independent qualified professional valuer, with major inputs as follows:

| | Listed CB | | Unlisted CB1 | | Unlisted CB2 | |
|---|---|---|---|---|---|---|
| | 19 November 2015 (date of issue) | 31 December 2015 | 19 November 2015 (date of issue) | 31 December 2015 | 15 December 2015 (date of issue) | 31 December 2015 |
| Market price of the Company's shares (HK$) | 2.57 | 2.6 | 2.57 | 2.6 | 2.17 | 2.6 |
| Strike price of conversion option (HK$) (Note) | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 | 2.5 |
| Risk-free rate (%) | 0.85 | 0.78 | 0.85 | 0.78 | 0.73 | 0.78 |
| Expected volatility (%) | 28 | 28 | 28 | 28 | 32 | 28 |
| Dividend yield (%) | – | – | – | – | – | – |

In view of the issuer's early redemption amounts of the Convertible Bonds are significantly larger than the carrying amounts of the Convertible Bonds at the date of issue and at 31 December 2015, the directors of the Company considered the fair values of the issuer's early redemption option embedded in the Convertible Bonds are insignificant at the date of issue and at 31 December 2015.

Note: The initial strike price of the conversion option is HK$2.5 per share and will be adjusted thereafter according to terms and conditions set out in respective convertible bonds subscription agreements.

## 22. COMMITMENTS

| | At 31 December 2015 HK$'000 (unaudited) | At 30 June 2015 HK$'000 (audited) |
|---|---|---|
| **Capital commitments** | | |
| Capital expenditure contracted for but not provided for in the condensed consolidated financial statements in respect of: | | |
| – acquisition of property, plant and equipment | 1,056,222 | 2,054,747 |
| **Other commitments** | | |
| Expenditure contracted for but not provided for in the condensed consolidated financial statements in respect of: | | |
| – prepaid lease payments on leasehold land in the PRC | 56,453 | 59,162 |
| – purchase of bunker barges | 195,321 | 63,452 |
| | 1,307,996 | 2,177,361 |
| **Capital commitments for the joint ventures** | | |
| Capital expenditure contracted for but not provided for in the condensed consolidated financial statements in respect of: | | |
| – acquisition of property, plant and equipment | 223,513 | 241,487 |
| | 1,531,509 | 2,418,848 |

## 23. RELATED PARTY TRANSACTIONS

Dr. Sit, an executive director and the ultimate controlling shareholder of the Company, controlled the below related companies.

During the period, the Group entered into the following transactions with a related company, which are also continuing connected transactions as defined under Listing Rules:

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Purchase of fuel oil from a related company | **3,540,000** | 4,681,625 |
| Fuel oil storage fee paid or payable to a related company | **29,248** | – |
| Barge service fee paid or payable to a related company | **13,234** | – |
| Commission fee received from a related company in relation to oil derivative trading | **500** | – |

Trade payable to a related company as set out in note 18 was unsecured and non-interest bearing.

Amounts due from joint ventures were non-trade in nature, unsecured, interest-free and repayable on demand.

Amounts due from a related company are non-trade in nature, unsecured, interest-free and repayable on demand.

Loans from a related company were unsecured and non-interest bearing with details set out in note 25.

## 23. RELATED PARTY TRANSACTIONS (CONTINUED)

During the six months ended 31 December 2015, the Group and a related company entered into an oil derivative trading agency agreement (the "Agency Agreement") and pursuant to which the Group executed transactions for trading of oil derivatives from time to time on behalf of the related company by using its facilities and trading accounts in relation to oil derivatives trading for the period from 1 July 2015 to 31 December 2015 and the Group received service fee at a rate of HK$0.25 per barrel for each executed transaction. Included in the amount due from a related company is an amount of approximately HK$185,538,000 which represents net loss on the oil derivative trading transactions executed by the Group on behalf of the related company which is borne by the related company according to the terms set out in the Agency Agreement. At the date of this report, the entire amount was repaid by the related company.

On 17 October 2015, the Group and a related company entered into an agreement for sale of fuel oil and pursuant to which the Group agreed to make prepayments to purchase a total of 1,600,000 metric ton fuel oil from the related company during the eight (subsequently amended on 22 February 2016 to four) months period starting from 1 March 2016 with delivery of 200,000 (subsequently amended on 22 February 2016 to 400,000) metric ton per each calendar month. The price of each metric ton of fuel oil to be supplied by the related company was agreed at lower of US$250 per metric ton or 90% of a defined market price. This transaction was reviewed and approved by the executive directors of the Company on 17 October 2015 and on 22 February 2016 for the amendments. At 31 December 2015, the Group has already made prepayments of approximately HK$3,100,336,000 to the related company for the purchase. Any excess or remaining balance of the prepayments on completion of delivery of 1,600,000 metric ton fuel oil or after 31 October 2016 (subsequently amended on 22 February 2016 to 30 June 2016) will be refunded to the Group. As a result of this prepayment, the Group has material concentration risk at 31 December 2015. The related company is principally engaged in oil trading business. The executive directors of the Company have performed a credit review on the related company, including assessing its financial position at 31 December 2015 and reviewing the quality of its assets. As the current assets of the related company exceeded its current liabilities, the executive directors of the Company considered a risk of the related company defaulting in repayment or failure in discharging its contractual obligation to be low. In this regard, the executive directors of the Company considered that the Group's credit risk was acceptable.

During the six months ended 31 December 2015, two subsidiaries of the Group and a related company entered into a memorandum of agreement and a vessels acquisition agreement separately (collectively referred to as the "Agreements") for purchase of 11 bunker barges in total from the related company. Pursuant to the Agreements, the Group agreed to purchase and the related company agreed to sell the 11 bunker barges at US$8,400,000 (equivalent to approximately HK$65,103,000) each. The 11 bunker barges would be delivered in batches from January 2016 to 30 November 2016. Deposits of US$67,200,000 (equivalent to approximately HK$520,865,000) in total were paid before the end of the reporting period. Up to the date of this report, the first delivery of a bunker barge has not taken place yet.

Such transactions constitute connected transactions under the Listing Rules.

## 23. RELATED PARTY TRANSACTIONS (CONTINUED)

### Compensation of key management personnel

The remuneration of members of key management of the Group during the period is as follows:

| | Six months ended 31 December | |
|---|---|---|
| | **2015** | 2014 |
| | **HK$'000** | HK$'000 |
| | **(unaudited)** | (unaudited) |
| Salaries and other short-term employee benefits | **7,720** | 7,652 |
| Retirement benefits cost | **66** | 36 |
| Share-based payments | | |
| – share award | **1,915** | 761 |
| | **9,701** | 8,449 |

The remuneration of executive directors, who are considered as the key management personnel of the Group, is determined by the remuneration committee having regard to the performance of the individuals and market trend.

## 24. MAJOR NON-CASH TRANSACTIONS

During the six months ended 31 December 2015, the Group utilised approximately HK$6,147,000 (six months ended 31 December 2014: HK$19,685,000) of deposits paid for acquisition of property, plant and equipment.

During the six months ended 31 December 2015, amounts of approximately HK$1,178,961,000 (six months ended 31 December 2014: HK$645,486,000) in relation to purchase of property, plant and equipment were not settled yet and were included in other creditors and accrued charges.

## 25. LOANS FROM A RELATED COMPANY

In December 2014, a related company controlled by Dr. Sit re-arranged certain trade payable, with a principal amount of US$290,000,000 (equivalent to approximately HK$2,248,683,000), owed by the Group to it as an unsecured loan to the Group (the "Related Party Loan 1"). The Related Party Loan 1 was unsecured, interest-free and repayable on 31 January 2016. On initial recognition, the Related Party Loan 1 was discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating and imputed interest of approximately HK$220,537,000 was credited to equity as deemed capital contribution from the ultimate controlling shareholder. During the six months ended 30 June 2015, a principal amount of US$160,500,000 (equivalent to approximately HK$1,244,530,000) of the Related Party Loan 1 was repaid early and imputed interests of approximately HK$72,514,000 was debited to equity as release of deemed capital contribution from the ultimate controlling shareholder as the early repayment was for the purpose of renegotiation of new loans from the related company with longer loan terms. During six months ended 31 December 2015, the entire outstanding balance of the Related Party Loan 1 was repaid early and imputed interest of HK$54,290,000 was charged to profit or loss.

In May 2015, the related company re-arranged certain trade payable, with a principal amount of US$70,000,000 (equivalent to approximately HK$542,785,000), owed by the Group to it as an unsecured loan to the Group (the "Related Party Loan 2"). The Related Party Loan 2 was unsecured, interest-free and repayable on 30 November 2016. On initial recognition, the Related Party Loan 2 was discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating and imputed interest of approximately HK$72,288,000 was credited to equity as deemed capital contribution from the ultimate controlling shareholder. During six months ended 31 December 2015, the entire outstanding balance of the Related Party Loan 2 was repaid early and imputed interest of HK$68,209,000 was charged to profit or loss.

On 30 June 2015, the related company re-arranged certain trade payable, with a principal amount of US$50,000,000 (equivalent to approximately HK$387,598,000), owed by the Group to it as an unsecured loan to the Group (the "Related Party Loan 3"). The Related Party Loan 3 was unsecured, interest-free and repayable on 31 December 2016. On initial recognition, the Related Party Loan 3 was discounted using the prevailing market rate of interest for a similar instrument with a similar credit rating and imputed interest of approximately HK$51,634,000 was credited to equity as deemed capital contribution from the ultimate controlling shareholder. During six months ended 31 December 2015, the entire outstanding balance of the Related Party Loan 3 was repaid early and imputed interest of HK$51,634,000 was charged to profit or loss.

At 31 December 2015, all loans from a related company were fully settled.

## 26. PROVISION FOR RESTORATION AND ENVIRONMENTAL COSTS

| | HK$'000 |
|---|---|
| At 1 July 2015 (audited) | 210,523 |
| Unwinding of discounting effects for the period | 5,989 |
| Exchange realignment | (30) |
| At 31 December 2015 (unaudited) | 216,482 |

Oil extracting activities may result in damage to the environment. Pursuant to the relevant PRC regulations, parties operating mining areas are required to restore the mining areas back to certain acceptable conditions.

The provision for the restoration and environmental clean up costs is estimated based on the proportion of obligation that KMCPL is required to bear after the petroleum contracts expire. Such provision has been determined by directors of the Company based on their past experience, the restoration costs governed by respective regulations and their best estimate of future expenditures by discounting to their net present value at market rate. The restoration and environmental clean up works are expected to be carried out when the operations in the Contract Areas (as defined in note 27) cease at the end of the Contracted Periods and are expected to last for one year. The amounts provided in relation to restoration and environmental clean up costs are prepared annually by internal engineers based upon the facts and circumstances available at the time which are reviewed annually by the management of the Group. Provisions are updated by the management accordingly.

## 27. ACQUISITION OF A SUBSIDIARY

On 8 August 2014, the Group acquired the entire issued share capital of KMCPL, which was principally engaged in development, production and sales of crude oil, at an adjusted cash consideration of US$946,035,000 (equivalent to approximately HK$7,331,770,000).

KMCPL entered into petroleum contracts ("PCs") in contract areas 04/36 and 05/36 (the "Contract Areas") located in Bohai Bay, north-east China for exploration, development and production of crude oil (the "Bohai Bay Project") with CNOOC, Singapore Petroleum Company ("SPC") and Newfield China, LDC ("Newfield") (collectively referred to as the "Interest Owners"). CNOOC is the operator of the Bohai Bay Project while KMCPL, SPC and Newfield are contractors (the "Contractors"). It was the Group's strategic vision to increase its footprint in the upstream crude oil and natural gas industry. The acquisition of KMCPL, in which the Bohai Bay Project had been in steady production, generating good cash flows and managed by a reputable operator and had internationally renowned business partners, was an important step towards the implementation of the overall Group's strategy to progress the Group from a downstream focused company into an integrated oil and gas company, with sustainable production volumes and revenue streams.

## 27. ACQUISITION OF A SUBSIDIARY (CONTINUED)

The purpose of the acquisition of KMCPL was to obtain the mining interests for development, production and sales of crude oil extracted from specified contract areas (see note 13 for details), thus enabling the Group to further diversify its business in the oil industry. The mining interests arising as a result of the acquisition was amounted to approximately HK$5,633,398,000.

### Consideration transferred

| | HK$'000 |
|---|---|
| Cash | 6,498,615 |
| Deposit paid during the year ended 30 June 2014 | 833,155 |
| Total consideration transferred | 7,331,770 |

Acquisition-related costs amounting to HK$12,677,000 were excluded from the consideration transferred and were recognised as an expense during the six months ended 31 December 2014, within the "other expenses" line item in the condensed consolidated statement of profit or loss and other comprehensive income.

### Assets acquired and liabilities recognised by the Group at the date of acquisition are as follows:

| | HK$'000 |
|---|---|
| Mining interests | 5,633,398 |
| Property, plant and equipment | 1,779,306 |
| Deferred tax assets | 35,248 |
| Inventories | 64,988 |
| Other debtors, prepayment and deposits | 4,963 |
| Bank balances and cash | 481,411 |
| Other creditors and accrued charges | (432,928) |
| Profits tax liabilities | (42,267) |
| Provision for restoration and environmental costs | (192,349) |
| Total consideration transferred | 7,331,770 |

## 27. ACQUISITION OF A SUBSIDIARY (CONTINUED)

### Net cash outflow on acquisition of KMCPL

| | HK$'000 |
|---|---|
| Total cash consideration paid | 7,331,770 |
| Less: Deposit paid during the year ended 30 June 2014 | (833,155) |
| Less: Bank balances and cash acquired | (481,411) |
| | 6,017,204 |

The fair value of the mining interests at the date of acquisition was determined based on the valuation carried out by Asset Appraisal Limited, an independent qualified professional valuer not connected to the Group. The fair value was arrived at by adopting income approach that determines the present value of the incremental after-tax cash flows attributable to the mining interests.

## 28. PLEDGE OF ASSETS

At 31 December 2015, vessels, inventories, trade debtors and bank deposits of the Group with carrying values of approximately HK$5,387,108,000, HK$345,111,000, HK$4,109,842,000 and HK$968,190,000 (30 June 2015: approximately HK$5,505,576,000, HK$763,314,000, HK$6,479,834,000 and HK$1,552,576,000) respectively were pledged with several banks to secure the loans and short-term credit facilities granted to the Group.

## 29. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS

This note provides information about how the Group determines fair values of various financial assets and financial liabilities.

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

The Group's financial assets and financial liabilities 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 assets and financial liabilities are determined (in particular, the valuation technique(s) and inputs used), as well as the level of the fair value hierarchy into which the fair value measurements are categorised (levels 1 to 3) based on the degree to which the inputs to the fair value measurements is observable.

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active market for identical assets or liabilities;

## 29. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

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

- 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 liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- 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).

### Fair value hierarchy

| | Fair value as at 31 December 2015 | | | | Valuation techniques and inputs | Significant unobservable inputs |
|---|---|---|---|---|---|---|
| | Level 1<br>HK$'000<br>(unaudited) | Level 2<br>HK$'000<br>(unaudited) | Level 3<br>HK$'000<br>(unaudited) | Total<br>HK$'000<br>(unaudited) | | |
| **Financial assets** | | | | | | |
| Non-derivative securities held-for-trading | 84,528 | – | – | 84,528 | Quoted bid prices in an active market | N/A |
| Oil and gasoline futures and swap contracts | – | 409,282 | – | 409,282 | Difference between contractual strike prices and prevailing futures/swaps prices which are derived from relevant exchange markets | N/A |
| Petroleum related forward contracts in relation to physical delivery directly dealt with counterparties | – | 163,177 | – | 163,177 | Difference between contractual prices and forward prices which are derived from applicable forward curve for remaining duration of the investment | N/A |
| Total | 84,528 | 572,459 | – | 656,987 | | |

## 29. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy (continued)

| | Fair value as at 31 December 2015 | | | | Valuation techniques and inputs | Significant unobservable inputs |
|---|---|---|---|---|---|---|
| | Level 1<br>HK$'000<br>(unaudited) | Level 2<br>HK$'000<br>(unaudited) | Level 3<br>HK$'000<br>(unaudited) | Total<br>HK$'000<br>(unaudited) | | |
| **Financial liabilities** | | | | | | |
| Oil and gasoline futures and swap contracts | - | 286,030 | - | 286,030 | Difference between contractual strike prices and prevailing futures/swaps prices which are derived from relevant exchange markets | N/A |
| Petroleum related forward contracts in relation to physical delivery directly dealt with counterparties | - | 166,310 | - | 166,310 | Difference between contractual prices and forward prices which are derived from applicable forward curve for remaining duration of the investment | N/A |
| Conversion option derivative embedded in the Convertible Bonds | - | - | 336,700 | 336,700 | Monte Carlo simulation option pricing model which selects a random value for each of the repeated sampling based on the range of estimates including market price of the Company's share, strike price of the conversion option, risk-free rate, dividend yield and expected volatility | Expected volatility of 28% (Note) |
| Total | - | 452,340 | 336,700 | 789,040 | | |

## 29. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy (continued)

| | Fair value at 30 June 2015 | | | | Valuation techniques and inputs | Significant unobservable inputs |
|---|---|---|---|---|---|---|
| | Level 1 HK$'000 (audited) | Level 2 HK$'000 (audited) | Level 3 HK$'000 (audited) | Total HK$'000 (audited) | | |
| **Financial assets** | | | | | | |
| Non-derivative securities held-for-trading | 138,916 | – | – | 138,916 | Quoted bid prices in an active market | N/A |
| Oil and gasoline futures and swap contracts | – | 154,383 | – | 154,383 | Difference between contractual strike prices and prevailing futures/swaps prices which are derived from relevant exchange markets | N/A |
| Petroleum related forward contracts in relation to physical delivery directly dealt with counterparties | – | 123,357 | – | 123,357 | Difference between contractual prices and forward prices which are derived from applicable forward curve for remaining duration of the investment | N/A |
| Total | 138,916 | 277,740 | – | 416,656 | | |

## 29. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy (continued)

| | Fair value at 30 June 2015 | | | | Valuation techniques and inputs | Significant unobservable inputs |
|---|---|---|---|---|---|---|
| | Level 1<br>HK$'000<br>(audited) | Level 2<br>HK$'000<br>(audited) | Level 3<br>HK$'000<br>(audited) | Total<br>HK$'000<br>(audited) | | |
| **Financial liabilities** | | | | | | |
| Oil and gasoline futures and swap contracts | – | 133,644 | – | 133,644 | Difference between contractual strike prices and prevailing futures/swaps prices which are derived from relevant exchange markets | N/A |
| Petroleum related forward contracts in relation to physical delivery directly dealt with counterparties | – | 103,134 | – | 103,134 | Difference between contractual prices and forward prices which are derived from applicable forward curve for remaining duration of the investment | N/A |
| Total | – | 236,778 | – | 236,778 | | |

Note: A higher volatility will increase the value of the conversion option derivative embedded in the Convertible Bonds.

If the expected volatility had been 10% higher or lower and all other inputs were held constant, the fair value of the conversion option derivative embedded in the Convertible Bonds at 31 December 2015 would be increased or decreased by approximately HK$27,331,000 or HK$26,915,000 respectively.

There is no transfer between different levels of fair value hierarchy for the six months ended 31 December 2015 and year ended 30 June 2015.

The fair values of the liability component of the Convertible Bonds and loans from a related company at 31 December 2015 and 30 June 2015 respectively are determined in accordance with generally accepted pricing models based on discounted cash flow analysis.

The directors of the Company consider that the carrying amounts of financial assets and financial liabilities recorded at amortised cost in the condensed consolidated financial statements approximate their fair values.

## 29. FAIR VALUE MEASUREMENT OF FINANCIAL INSTRUMENTS (CONTINUED)

### Fair value hierarchy (continued)

**Reconciliation of Level 3 fair value measurements of financial liabilities**

Reconciliation of conversion option derivative embedded in the Convertible Bonds, which is classified as level 3 fair value financial instruments, is set out in note 21.

The fair value changes of conversion option derivative embedded in the Convertible Bonds are included in the condensed consolidated statement of profit or loss and other comprehensive income.

**Valuation processes for level 3 of financial instruments**

The management of the Group is responsible to determine the appropriate valuation techniques and inputs for fair value measurements.

In estimating the fair value of an asset or a liability, the Group uses market-observable data to the extent it is available. Where Level 1 inputs are not available, the Group engages third party qualified valuers to perform the valuation. The management works closely with the qualified external valuers to establish the appropriate valuation techniques and inputs to the valuation model. The management reports to the board of directors of the Company semi-annually to explain the cause of fluctuations in the fair value of the assets and liabilities.

The Group uses valuation techniques that include inputs that are not based on observable market data to estimate the fair value of certain types of financial instruments. Information about the valuation techniques and inputs used in the determination of the fair value of various assets and liabilities are disclosed in this note above.

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS

The disclosures set out in the tables below include financial assets and financial liabilities that are subject to enforceable master netting agreements signed with various counterparties (the "Netting Agreements") irrespective of whether they are offset in the Group's condensed consolidated statement of financial position.

The amounts recognised for the derivative financial assets and derivative financial liabilities in relation to futures and swap contracts do not meet the criteria for offsetting in the Group's condensed consolidated statement of financial position since the right of set-off of the recognised amounts is only enforceable upon an event of default.

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS (CONTINUED)

### At 31 December 2015

**Financial assets of the Group subject to the Netting Agreements by type of financial instruments**

| | Gross amounts of recognised financial assets HK$'000 (unaudited) | Gross amounts of recognised financial assets set off in the condensed consolidated statement of financial position HK$'000 (unaudited) | Net amounts of financial assets presented in the condensed consolidated statement of financial position HK$'000 (unaudited) |
|---|---|---|---|
| Derivative financial assets | | | |
| – futures | 299 | – | 299 |
| – swaps | 408,983 | – | 408,983 |
| | 409,282 | – | 409,282 |

**Financial liabilities of the Group subject to the Netting Agreements by type of financial instruments**

| | Gross amounts of recognised financial liabilities HK$'000 (unaudited) | Gross amounts of recognised financial liabilities set off in the condensed consolidated statement of financial position HK$'000 (unaudited) | Net amounts of financial liabilities presented in the condensed consolidated statement of financial position HK$'000 (unaudited) |
|---|---|---|---|
| Payables to brokers | (28,708) | – | (28,708) |
| Derivative financial liabilities | | | |
| – futures | (1,694) | – | (1,694) |
| – swaps | (284,336) | – | (284,336) |
| | (314,738) | – | (314,738) |

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS (CONTINUED)

### At 31 December 2015 (continued)

**Net financial assets subject to the Netting Agreements by counterparty**

| | Net amounts of financial assets presented in the condensed consolidated statement of financial position | Related amounts not set off in the condensed consolidated statement of financial position | |
|---|---|---|---|
| | Derivative financial instruments HK$'000 (unaudited) | Payables to brokers and derivative financial liabilities HK$'000 (unaudited) | Net amounts HK$'000 (unaudited) |
| Counterparty A | 354,591 | (178,158) | 176,433 |
| Counterparty B | 54,691 | (54,691) | – |
| Total | 409,282 | (232,849) | 176,433 |

**Net financial liabilities subject to the Netting Agreements by counterparty**

| | | Net amounts of financial liabilities in the condensed consolidated statement of financial position | Related amounts not set off in the condensed consolidated statement of financial position | |
|---|---|---|---|---|
| | Payables to brokers HK$'000 (unaudited) | Derivative financial instruments HK$'000 (unaudited) | Derivative financial assets HK$'000 (unaudited) | Net amounts HK$'000 (unaudited) |
| Counterparty A | (22,790) | (155,368) | 178,158 | – |
| Counterparty B | (5,918) | (130,662) | 54,691 | (81,889) |
| Total | (28,708) | (286,030) | 232,849 | (81,889) |

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS (CONTINUED)

### At 30 June 2015

**Financial assets of the Group subject to the Netting Agreements by type of financial instruments**

| | Gross amounts of recognised financial assets HK$'000 (audited) | Gross amounts of recognised financial assets set off in the consolidated statement of financial position HK$'000 (audited) | Net amounts of financial assets presented in the consolidated statement of financial position HK$'000 (audited) |
|---|---|---|---|
| Receivables from brokers | 221,453 | – | 221,453 |
| Derivative financial assets | | | |
| – futures | 15,113 | – | 15,113 |
| – swaps | 139,270 | – | 139,270 |
| | 375,836 | – | 375,836 |

**Financial liabilities of the Group subject to the Netting Agreements by type of financial instruments**

| | Gross amounts of recognised financial liabilities HK$'000 (audited) | Gross amounts of recognised financial liabilities set off in the consolidated statement of financial position HK$'000 (audited) | Net amounts of financial liabilities presented in the consolidated statement of financial position HK$'000 (audited) |
|---|---|---|---|
| Derivative financial liabilities | | | |
| – futures | (20,306) | – | (20,306) |
| – swaps | (113,338) | – | (113,338) |
| | (133,644) | – | (133,644) |

## 30. FINANCIAL ASSETS AND FINANCIAL LIABILITIES SUBJECT TO ENFORCEABLE MASTER NETTING ARRANGEMENTS (CONTINUED)

### At 30 June 2015 (continued)

**Net financial assets subject to the Netting Agreements by counterparty**

| | Net amounts of financial assets presented in the consolidated statement of financial position | | | Related amounts not set off in the consolidated statement of financial position | |
|---|---|---|---|---|---|
| | Receivables from brokers HK$'000 (audited) | Derivative financial instruments HK$'000 (audited) | Total HK$'000 (audited) | Derivative financial liabilities HK$'000 (audited) | Net amounts HK$'000 (audited) |
| Counterparty A | 33,346 | 3,939 | 37,285 | (3,475) | 33,810 |
| Counterparty B | 10,050 | 5,982 | 16,032 | (5,381) | 10,651 |
| Counterparty C | 178,057 | 143,704 | 321,761 | (124,424) | 197,337 |
| Counterparty D | – | 758 | 758 | (364) | 394 |
| Total | 221,453 | 154,383 | 375,836 | (133,644) | 242,192 |

**Net financial liabilities subject to the Netting Agreements by counterparty**

| | Net amounts of financial liabilities in the consolidated statement of financial position HK$'000 (audited) | Related amounts not set off in the consolidated statement of financial position | |
|---|---|---|---|
| | | Derivative financial assets HK$'000 (audited) | Net amounts HK$'000 (audited) |
| Counterparty A | (3,475) | 3,475 | – |
| Counterparty B | (5,381) | 5,381 | – |
| Counterparty C | (124,424) | 124,424 | – |
| Counterparty D | (364) | 364 | – |
| Total | (133,644) | 133,644 | – |

The gross amounts of the recognised financial assets and financial liabilities disclosed in the above tables which are subject to the Netting Agreements, are measured as follows:

- Receivables from brokers – amortised cost
- Payables to brokers – amortised cost
- Derivative financial instruments – fair value

## FINANCIAL REVIEW

During the six months ended 31 December 2015, the Group recorded significant increase in gross profit of HK$835 million or 490% increase as compared with previous period of six months ended 31 December 2014. The increased gross profit was mainly attributed from the Group's two core business segment which are International Trading & Bunkering ("ITB") and Marine Transportation.

The total revenue of the Group decreased by HK$23,237 million as compared with the previous period of six months ended 31 December 2014. The decrease in revenue was mainly due to the decrease of global oil prices. Meanwhile, the increase in revenue from Marine Transportation compensated the decrease in revenue attributed to decrease in global oil prices while the business performance of Upstream Gas Business remained steady.

The Group recorded an EBITDA of HK$680 million for the six months ended 31 December 2015. Marine Transportation business recorded an EBITDA of HK$432 million for the six months ended 31 December 2015, representing an increase of 92% from the HK$225 million recorded for the previous period of six months ended 31 December 2014. Meanwhile, ITB business recorded an EBITDA of HK$255 million for the six months ended 31 December 2015, representing an increase of 41.7% from the HK$180 million recorded for the previous period of six months ended 31 December 2014. Upstream Oil and Gas business recorded a decrease in EBITDA for the six months ended 31 December 2015 at HK$182 million. The decrease was mainly due to the voluntary impairment of Caofeidian oilfields in China of HK$619 million attributed to the significant decline in global oil prices. The impairment of Caofeidian oilfields is non-cash in nature and it is not expected that the recognition of this impairment loss would have any material impact on the cash flows and the business operations of the Group.

The Group recorded loss of HK$523 million during the six months ended 31 December 2015 and was mainly attributed to the voluntary impairment of Caofeidian oilfields which is non-cash in nature.

During the six months ended 31 December 2015, the Group recorded basic and diluted loss per share of HK5.17 cents and HK5.17 cents respectively (six months ended 31 December 2014: basic and diluted earnings per share of HK6.41 cents and HK6.01 cents respectively).

## LIQUIDITY AND FINANCIAL RESOURCES

At 31 December 2015, the Group had receivables from brokers, pledged bank deposits and bank balances and cash of approximately HK$102.6 million, HK$968.2 million and HK$1,134.5 million respectively.

The Group considers its foreign currency exposure is mainly arising from the exposure of exchange between Hong Kong dollars, Singapore dollars, Renminbi and United States dollars. The Group manages its exposures to foreign currency transactions by monitoring the level of foreign currency receipts and payments and ensures that the net exposure to foreign exchange risk is kept to an acceptable level from time to time.

## BORROWINGS AND CHARGES ON GROUP ASSETS

At 31 December 2015, the Group had bank borrowings and charges on its assets of approximately HK$13,028.2 million and HK$10,810.3 million respectively.

## CONTINGENT LIABILITIES

At 31 December 2015, the Group did not have any significant contingent liabilities.

## CAPITAL STRUCTURE

As at 31 December 2015, the Company had 10,156,494,599 shares in issue with total share capital of approximately HK$253.9 million.

## GEARING RATIO

As at 31 December 2015, the Group's gearing ratio was approximately 121% calculated as the Group's net borrowing divided by Shareholders' equity. Net borrowing of HK$11,869.0 million was calculated as total borrowings (i.e. the aggregate of bank and other borrowings, payable to a broker and convertible bonds of HK$14,074.3 million) less receivables from brokers, pledged bank deposits and bank balances and cash of approximately HK$2,205.3 million.

## BUSINESS REVIEWS AND OUTLOOK

During the period under review, affected by international political and economic environment, energy market volatility, and oil price plunge, operators in the oil and gas related industry has faced severe challenges.

Overall, the continued downturn in oil prices exerted certain impact on the Group's business. In respect to the Group's upstream business, especially on crude oil exploration and production, negative impacts have been seen. Internationally, our peers in the resources sectors are facing similar problems. Therefore, based on the continued downturn in oil prices, the Group made impairment provision on the Caofeidian offshore oil field project, which had a negative impact on our upstream business performance this period. However, our onshore natural gas projects had minimal impact.

At the same time, the continued downturn in oil prices had its positive side. It stimulated the demand for oil and global oil spot trading. The increasing demand for oil storage and marine transportation brought broader development space for our marine transportation and international trading and bunkering businesses. Therefore, our downstream business maintained an impressive growth against such downturn in international oil prices, offsetting the decline in the upstream business. Meanwhile, the low oil prices brought a rare opportunity for the Group's business transformation. After long preparation, the Group officially launched the energy and financial e-commerce platform "Brightoil Online" on 12 January 2016.

Looking forward, with the smooth implementation of the "One Belt, One Road" strategy, the energy industry will embrace new opportunities of development. As the new Tuzi-4 Deep Drilling Well in the Tuzi Luoke Gas Field of the Group ("Tuzi Gas Field") was discovered with promising gas reserves, achieving the yield of the gas field will significantly improve the natural gas production of the Group, and greatly increase the upstream reserves and production of gas and oil. Meanwhile, the synergy of online and offline business supply chain will be in full play and improve the overall effectiveness of the Group.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

In the current low oil price environment, we continue to maintain growth momentum in our downstream business. This year, our storage and terminal facilities in Zhoushan will be operational and will provide steady income. With our planned Dalian facilities, we will have over 10 million cubic meter of oil storage capacity along the national coastline. Meanwhile, for the upstream oil field project, we have been partnering with China National Offshore Oil Corporation ("CNOOC") to take various measures to enhance cost efficiency and reduce costs, save development and production costs, reduce expenses and improve profit margins. We have obtained certain achievements and will continue to explore potential reserves in ensuring proper profit margins in our upstream projects.

In addition, the launch of our e-commerce platform Brightoil Online is the Group's important initiative to transform from asset-heavy to asset-light, from business-oriented to the public-oriented and consumer-oriented, from offline to online-offline. Gaining a foothold in the oil consumer market, servicing the broader customers, and seizing the market opportunity and demand, the risk-resisting ability of the Group within the entire industrial chain will become very powerful. The Group will capture the opportunities from China's great effort in encouraging and developing Internet-based economy, combined with the Group's unique advantages within the oil industry chain. With the innovative energy e-commerce platform business developing smoothly, the Group will effectively consolidate the downstream industrial chains business, focus superior resources at home and abroad, and capture great market opportunities. With the internet platform, we expect that land fuel supply, marine bunkering and our other downstream business will experience remarkable growth, bringing the Group with substantial rewards.

### Upstream Business

Smooth operations in the Group's upstream production and additional reserves have been recorded during the period under review. The Group has partnered with China National Petroleum Corporation ("CNPC") to jointly develop the Dina 1 Gas Field ("Dina 1 Gas Field"). The current daily production was approximately 1.15 million cubic meters of natural gas and 57 metric tonnes of condensate. The total production of gas and condensate production during the period under review were 179 million cubic meters and 9,036 metric tonnes, respectively. The Group is exploring ways of optimizing its operations based on industry's best practices in order to maximize production without comprising safety. As at 30 June 2015, the net proven and probable ("2P") oil and gas reserves in Dina 1 Gas Field amounted to 20.75 million barrel of oil equivalent ("boe"). The Group is in advanced discussion with CNPC to further develop the gas field – a drilling contract for a new well Dina 1-3 has been signed and drilling work is in progress since 6 February 2016.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

### Upstream Business (continued)

The Tuzi Gas Field, jointly developed with CNPC, commenced commercial production in December 2013. With the overall development plan of 19 wells approved by the National Development and Reform Commission ("NDRC"), 14 out of the planned 19 wells are in production with a total daily production rate of approximately 1.94 million cubic meters of natural gas and 9 metric tonnes of condensate. During the period under review, total natural gas and condensate production amounted to 177 million cubic meters and 741 metric tonnes, respectively. According to the Overall Development Plan ("ODP"), the Group will complete the drilling of the remaining 5 wells by the end of 2016 and daily production is expected to increase to 3 million cubic meters. As at 31 August 2014, the net 2P oil and gas reserves in Tuzi Gas Field amounted to 31.15 million boe. Upon full commercial production of the Tuzi Gas Field at the end of 2016, the Dina 1 and Tuzi Gas Fields are expected to produce 1.4 billion cubic meters of natural gas and 40,000 metric tonnes of condensate annually. The Group is currently carrying out drilling works at the Tuzi-4 Deep Drilling Well, which was approved by CNPC but not included in the existing overall development plan. The well is expected to be completed in April 2016 and to begin the trial run soon. During the drilling process, two new gas layers were found and showed good oil and gas prospects. The combined geological reserves of the target layer and the two newly-discovered layers are expected to be multiples that of the existing layers under development.

The Group, in cooperation with CNOOC, has interests in Caofeidian offshore oilfields in Bohai Bay, China. The Group holds a 40.0909% non-operated interest (up until the contract expiry date of September 2024) in the CFD 11-1, CFD 11-2, CFD 11-3 and CFD 11-5 oilfields of Contract Area 04/36 covering an area of 124 square kilometers. It also holds a 29.1773% non-operated interest (with a contract expiry date of January 2026) in the CFD 11-6, CFD 12-1 and CFD 12-1S oilfields located in Contract Area 05/36 covering an area of 88 square kilometers. During the period under review, actual oil production at this project totalled 7.389 million barrels, representing 111.9% of planned production of 6.605 million barrels. Average daily production is approximately 36,300 barrels. According to the interests by the Group of this project, the Group has a total oil production of 2.423 million barrels with a daily production of 13,300 barrels during the period under review.

The Group and its partners are currently discussing a new Overall Development Adjustment Plan ("ODAP") for the Caofeidian oil assets. However, due to the continued downturn in international oil prices, the Group is trying to develop a new project development approach to invest the ODAP. The plan is under discussion process. The plan centres on the installation of up to 2 additional platforms with 89 new wells to be drilled. Among them, 68 wells will be oil wells and the rest 21 wells will be injection wells. The planned peak production rate under this new ODAP could reach 48,900 boe per day.

NDRC announced in August 2014 that the non-residential "city-gate" price of natural gas in the China would be increased by RMB0.4 per cubic meter with effect from 1 September 2014. It then announced in February 2015 the convergence of existing and incremental gas prices. Following the two price adjustments, the selling prices of gas produced at the Dina 1 and Tuzi Gas Fields saw remarkable growth. However, in October 2015, the price of natural gas has been lowered. The current provisional settlement price of natural gas is RMB1.0056 per cubic meters. After a few adjustments in price, the current price of natural gas is RMB7 cents per cubic meters higher than the price before adjustments. Overall, the price adjustments have some positive impacts on revenue.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

### Upstream Business (continued)

Looking forward, the Group will focus on the expansion of upstream operations in medium to long term. While continuing to develop existing assets, the Group will capture opportunities arising from the public and private partnerships implemented in China energy market, and expand the space of development. In addition, it will seek acquisitions and merger opportunities to buy low-risk oil and gas assets.

### International Trading and Bunkering

During the period under review, influenced by the strengthening of US dollars and the slowdown of global economy, supplies of different kinds of commodities well exceeded their demands, crude oil price dropped significantly. While market risk further intensified, the Group's International Trading and Bunkering business developed steadily.

Our crude trading team continued to work with big Chinese oil enterprises to develop long-term supply contracts and cooperated with local refineries in China's Shandong province. In procurement, continuing efforts are to uphold a good market channel in the Middle East and to strengthen its sourcing ability in South America and West Africa.

The Group's core business in fuel oil and marine bunkering continued to advance steadily during this period and through its preceding policy adjustments. We are focusing on Singapore, China, Taiwan, Korea, Japan and other Asia-Pacific markets.

On Marine Bunkering, the Group innovatively launched the first "Petroleum Industrial Chain + Internet" energy and financial e-commerce platform – Brightoil Online. One of its products, Marine Bunkering (B2B & O2O) online platform, relying on our trading team with extensive experience and integrated offline logistics chain, realized online transactions and real-time tracking throughout the whole process of oil trading through the e-commerce platform to provide global bunkering end users an effective, convenient, real-time and transparent trading experience. The Group's marine bunkering business demonstrated high quality service to the ship owners by investing in two 7,000 deadweight tonnages ("DWT") barges which were awarded the certification of Mass Flow Meter by Maritime Port Authority of Singapore. This achievement received praise and recognition from world class ship owners which aided in the rapid increase of oil flow and income stability. The Group is anticipating the approval of certification for another two barges from the Singapore authority which will further enhance the Group's supply capability. With respect to risk control, during the period under review, other than the tanker market, worldwide container shipping lines and break bulk cargo ship market entered into a bleak situation which added onto the ship owners' credit risk. The Group took the initiative to reduce or limit partial high credit risk of ship owners so that the Group's overall credit risk could stay within the margin of safety.

Looking ahead, the Group will support our energy and financial e-commerce platform Brightoil Online and continues to integrate supply chain resources by reducing or sub-letting vast storage capacity which at the same time lowers costs and improves efficiency. Through optimizing the trading team, completed with oil trading, oil storage facilities, bunkering and marine transportation, we can attain a comprehensive integration which bolstered the value-added chain into further development.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

### Marine Transportation

Benefits from the solid recovering of crude tanker shipping market, the Group has achieved very positive earnings result during the period under review. In the six months ended 31 December 2015, our revenue grew by an impressive 16% to HK$749 million as compared with the same period in 2014. The improvement in earnings was mainly contributed by our VLCC fleet. Our strategy of focusing on Chinese imports and Chinese state-owned oil company continued to pay dividends. In fact, more than 85% of our annual fleet revenue in 2015 is attributable to cargoes transported into China, and the ratio increased to over 95% for VLCC.

As of 31 December 2015, the Group's fleet consisted of 5 VLCCs, 4 Aframaxes and 4 bunker barges with an aggregate carrying capacity exceeding 2 million DWT. All of our ships are at young ages and modernly equipped to have efficient bunker consumption performance and flexible trading capability. Our VLCC ships are unique in that each vessel is additionally equipped with an on board blending facility and heating coils which enable them to blend different grades of cargoes while at sea, thereby minimizing both money and time cost on shore. All our bunker barges are equipped with Mass Flow Meters ("MFM") which substantially improve the accuracy of the quantity measurement during the fuel oil delivery process. Moreover, all the 9 large tankers have been also equipped with MFM in their main engine system. Those MFM will automatically measure the daily bunker consumption, helping to monitor and manage the ships' actual daily bunker consumption effectively.

We adopt various solutions to manage all cost categories effectively. Although we outsource the technical management of our 9 large tankers for international trading businesses, we have started providing the technical management in house for bunker barges. In end of December 2015, we moved the last ship, Brightoil 688, back to our own technical management in house, and now all the 4 bunker barges are under our own technical management as per the Document of Compliance by the China Classification Society. As per plan, we will take delivery one more new bunker barge ship, Brightoil 326, in February 2016. The technical management for Brightoil 326 will be arranged in house as well. As the numbers of self-managed fleet grow, the economy of scale of our ship management will increase.

2015 has been the most profitable year for crude tanker ship owners, since the market tumbled from the historical peak in 2008. The key theme during 2015 has been the high and improving trend of freight rates in crude oil tankers. After years of being dismal, the freight rates started rebounding in 2014 and improved further in 2015, driven by the increased demand and the moderately changed supply. In 2015, oil shipping demand has been and continued to be solid with a range of supportive factors starting with the low price of crude oil. Only during 1 July 2015 to 31 December 2015, the crude oil prices in international market have indeed fallen by about 40%. As the world's major oil producing countries did not cut production, the cheaper-than-before oil price obviously has stimulated the oil trading and importing, which further has driven up the demand of shipping. Although we saw a volatile trading pattern with freight rates drop in the 3rd quarter due to seasonal refinery maintenance, at most time the freight rates have stayed at high level in 2015. From the supply side, the VLCC new building delivery has been at low level for consecutively two years, with less than 30 ships delivered in both 2014 and 2015.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

### Marine Transportation (continued)

The high world oil production, together with strong demand for inexpensive crude oil and the stable ship tonnage supply, has led to the tanker fleet to high utilization and made a healthy market for ship owners. In addition, driven by the falling oil prices, the fuel oil prices have decreased and substantially benefited tanker ship owners such as Brightoil Shipping, as bunker fuel is the largest expenses in daily shipping operation. As per analysis, the price of IFO 380 (one of the main marine fuel oil) in Singapore market has dropped from the US$339.5 per tonne on 1 July 2015 to US$169.5 per tonne on 31 December 2015, recording a drop of about 50% in last 6 months. The increased market freights and the decreased bunker costs together generated good profits for ship owners.

From the demand side, the world oil production currently is at its highest level ever and the major oil production countries have not shown any intention to cut production. For shipping, it means there are plenty of cargoes to be moved. The recent repeal of the USA ban on crude oil exports should add additional demand for crude oil transportation. These fundamentals for the tanker shipping industry have been amplified with increased distances over which cargoes are being shipped. The new sources of crude oil supply and new delivery destination of additional consumption are resulting in increasing tonne miles and impacts positively the demand for tankers. In addition, the current crude oil price has hit the decade-low level and the oil price has been in contango. As per market reports, land based storage tanks are filling up, so the increasing produced and traded volume can only be stored on tanker ships, which will further increase the tanker ship demand.

From the supply side, we do expect acceleration and more new buildings to be delivered in 2016, as the strong market recovery started in 2014 and the impressive tanker asset value gain has strengthened the confidence of owners and attracted more investors to order new ships in last two years. As per market analysis, there will be over 50 new VLCCs to be delivered in 2016, mainly in the second half, which equals about 9% of the current VLCC fleet. For Aframax, the new delivery in 2016 may equal about 7.8% of the current fleet. Those estimated deliveries will exceed than those in 2015 but substantially. Comparing with the increased demand driven by increased oil supply, floating storage demand and increased tonne miles, the increased tonnage supply is still within the range to be offset. In addition, the stricter international regulations on low sulphur emission control are limiting the utilization of old ships and phasing old tonnage out of market, which will also offset the tonnage supply.

In summary, the prospective of our Marine Transportation business remains bright given the general sense of optimism in the crude tanker sector. We do not see large fundamental changes to turn the crude tanker shipping industry to negative side in short term and we expect the market will remain robust or at a healthy level. We have established a solid platform for further growth in business and profitability and we will continue our strategy to focus on China related business and costs optimization. In addition to traditional industry, we are active in developing new business. Our next focus will be on e-commerce development in marine industry. The target is to develop new business model via implanting new technology and internet concept into the traditional marine industry to create new profit centre.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

### Oil Storage and Terminal Facilities

The Group's two oil storage and terminal facilities under construction in Zhoushan and Dalian are located in China's primary deep-water harbours and large-scale commodity trading centres. With connection to national oil pipelines and nearby refineries, the projects are advantageously positioned among our peers in China by virtue of their scale and design throughput. China is in acute shortage of oil storage facilities located close to major terminals, yet our terminal facilities will offer berths which can accommodate vessels as large as VLCC. The projects are meticulously designed and equipped with advanced facilities, thereby maximising efficiency and throughput in oil transportation and enabling us to provide high-quality services to our clients. The Group will become one of the top five oil storage service providers globally and receive stable rental income upon the commencement of operations.

The project at Zhoushan Waidiao Island is located in the Zhoushan Islands District, Zhejiang Province. The remarkable location at the centre of Yangtze River Delta region, which includes metropolises such as Shanghai, Hangzhou and Ningbo, provides geographical advantages. The Zhoushan Islands District is the fourth state-level new area, following Pudong in Shanghai, Binhai in Tianjin and Liangjiang in Chongqing. It is a pilot region where the government will focus on developing the maritime economy and leading regional development, and is expected to become a hub for processing, transferring, warehousing and trading of oil and other commodities. The Zhoushan Oil Storage facility carries a total capacity of 3.16 million cubic meters in which Phase 1 offers capacities of 1.94 million cubic meters while Phase 2 offers capacities of 1.22 million cubic meters. This terminal facility has 6 berths with throughput of 3,000 DWT, 1 berth with throughput of 20,000 DWT, 1 berth with throughput of 50,000 DWT, 1 berth with throughput of 100,000 DWT, 1 berth with throughput of 300,000 DWT, and 3 berths for working vessels.

During the period under review, Phase 1 of the project is currently under development, with 70% of construction work already completed, and is expected to be finished in the second half of 2016. The construction of 1.47 million cubic meters of storage capacity has been completed. Phase 2 of the project commenced in June 2015 and is expected to be completed by the end of 2016. The hydraulic works of 13 berths at Zhoushan Terminal have been completed. Related ancillary facilities are being developed, among which 80% of the processing installation work for berths of 1,000 DWT and 50% for berths of 10,000 DWT have been completed. The terminal project is expected to be completed in the second half of 2016.

The oil storage and terminal facilities in Dalian are located in the government-approved petrochemical industry base on Changxing Island, Dalian. This is a core area for the restructuring and upgrading of China's petrochemical industry and one of the key petrochemical industrial bases on which the government will focus at. Leveraging the advantages of this industrial base, the Dalian storage and terminal facilities – being the major logistics facilities in it – are emerging as a centre for the trading, storing and transferring of oil products such as crude oil and fuel oil in the Bohai Bay region and Northeast Asia. Construction of oil storage facilities in Dalian, with a total design capacity of 7.19 million cubic meters, will be completed in two phases. The oil storage capacity of Phase 1 and 2 will be 3.51 million cubic meters and 3.68 million cubic meters, respectively. The terminal facilities will be equipped with 13 berths capable of accommodating vessels from 1,000 to 300,000 DWT. All land-leveling works for this project have been completed and formalities for government approval of the project were made during the period under review.

## BUSINESS REVIEWS AND OUTLOOK (CONTINUED)

### E-Commerce Platform

In reliance on its petroleum industrial chain and oil storage, terminals facilities, oil tankers, oil and gas fields and other infrastructure and the oil product supply and distribution chain established in the past 20 years, the Group innovatively launched the first "Petroleum Industrial Chain + Internet" comprehensive energy and financial e-commerce platform – Brightoil Online, in China. The platform has been launched on 12 January 2016.

Apart from targeting the corporate customers with the B2B model as well as the O2O model and promoting online and offline interaction, Brightoil Online innovatively launches a C2B model which is to cater to the need and experience of individual customers, to create a new petroleum consumption model, and to lead innovative development of the petroleum industry. Brightoil Online is endeavour to build a integrated petroleum and energy full industrial chain with e-commerce ecosphere including petroleum product storage and duty-free storage, large scale storage, large scale terminals, oil tankers, transportation and distribution, retail and wholesale, duty-free bunkering, commercial prepaid card, transaction and financial service. At this stage, the primary four products and services categories are: CROWDOIL (C2B), CLOUDOIL (C2B), CORPOIL (B2B & O2O) and Marine Bunkering (B2B & O2O) online platform.

Brightoil Online offers a range of innovative petroleum financial products based on the storage and trading of the petroleum spot market. The purpose of which is to provide consumers a new online-offline consumption model, and build a comprehensive consumption database combining online-offline petroleum and finance to make petroleum a hard currency that has diversified benefits such as oil usage, consumption, value preservation and cashing out.

After 20 years of development, the Group has set up a comprehensive profit model for front, middle and back desks covering exploitation of oil, production, transportation, storage, bunker supply, oil trading and hedging. The Group has extensive experience in domestic and international oil trading as well as channels of oil mining sales, hence the whole e-commerce industrial chain is equipped with a complete offline operating logistics systems of entities.

Looking forward, by further integrating purchase, supply, storage, logistics services and financial services in the petroleum industrial chain, Brightoil Online will realise the effective integration of capital flow, information flow, business flow as well as logistics, and build a petroleum energy and e-commerce ecosphere with full industrial chain equipped with supply, storage, delivery, sales, trading, payment and settlement together with relevant financial and information services.

## INTERIM DIVIDEND

The Board does not recommend the payment of an interim dividend for the six months ended 31 December 2015.

## EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group employed approximately 413 full time employees. The Group remunerates its directors and employees by reference to their performance, experience and prevailing industry practice. Employee benefits provided by the Group include mandatory provident fund scheme, medical schemes, discretionary performance-related bonuses and share award scheme. For the six months ended 31 December 2015, total employees' remuneration, including directors' remuneration, was approximately HK$79.8 million.

## SUBSTANTIAL SHAREHOLDERS AND PERSONS HAVING 5% OR MORE INTERESTS

As at 31 December 2015, the interests and short positions of every person, other than a Director or chief executive of the Company, in the Shares or underlying Shares as recorded in the register required to be kept under section 336 of the Securities and Futures Ordinance (Chapter 571 of the Laws of Hong Kong) ("SFO") were as follows:

### Long positions

| Name of substantial shareholder | Number of ordinary shares | Percentage of the issued share capital of the Company |
|---|---|---|
| Energy Empire Investments Limited | 2,918,088,960 (Note) | 28.73% |
| Canada Foundation Limited | 4,284,724,039 (Note) | 42.19% |

Note:

As Dr. Sit is the sole shareholder of both Energy Empire Investments Limited and Canada Foundation Limited, he was deemed to be interested in the Shares held by or deemed to be interested by these two companies under the SFO.

Save as disclosed above, as at 31 December 2015, the Company has not been notified of any person (other than a Director or chief executive of the Company) or entity had any interests or short positions in the Shares or underlying Shares as recorded in the register required to be kept under Section 336 of the SFO.

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES

At 31 December 2015, the interests and short positions of the Directors, chief executive of the Company in the Shares, underlying Shares and debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO as recorded in the register maintained by the Company pursuant to Section 352 of the SFO, or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Issuers (the "Model Code"), were as follows:

### Long positions in the Shares and underlying Shares of the Company

| Name of Director | Name of company | Capacity | Number of issued ordinary shares held | Percentage of the issued share capital of the Company (Note 1) |
|---|---|---|---|---|
| Dr. Sit Kwong Lam ("Dr. Sit") | The Company | Interest of controlled corporations and beneficial owner | 7,412,092,999 (Note 2) | 72.98% |
| Professor Chang Hsin Kang ("Professor Chang") | The Company | Beneficial owner | 380,000 (Note 3) | 0.004% |
| Mr. Tang Bo | The Company | Beneficial owner | 1,185,000 (Note 4) | 0.012% |
| Mr. Tan Yih Lin | The Company | Beneficial owner | 1,185,000 (Note 4) | 0.012% |
| Mr. Dai Zhujiang | The Company | Beneficial owner | 190,000 (Note 5) | 0.002% |
| Mr. Kwong Chan Lam | The Company | Beneficial owner | 190,000 (Note 5) | 0.002% |
| Mr. Lau Hon Chuen | The Company | Beneficial owner | 190,000 (Note 5) | 0.002% |
| Mr. Wang Wei ("Mr. Wang") | The Company | Beneficial owner | 385,000 (Note 6) | 0.004% |

## DIRECTORS' AND CHIEF EXECUTIVES' INTERESTS AND SHORT POSITIONS IN SHARES, UNDERLYING SHARES AND DEBENTURES (CONTINUED)

### Long positions in the shares and underlying shares of the Company (continued)

Notes:

(1) There were 10,156,494,599 Shares in issue as at 31 December 2015.

(2) These 7,412,092,999 Shares refer to (a) 2,918,088,960 Shares held by Energy Empire Investments Limited ("Energy Empire"); (b) 4,284,724,039 Shares held by Canada Foundation Limited ("Canada Foundation"); (c) 196,318,000 Shares held by Brightoil Welfare Ltd. ("Brightoil Welfare"); and (d) 12,962,000 Shares held by Harvest Energy Investments Ltd. ("Harvest Energy"). Energy Empire, Canada Foundation, Brightoil Welfare and Harvest Energy are wholly and beneficially owned by Dr. Sit.

(3) These 380,000 Shares refer to (a) 190,000 Shares jointly held by Professor Chang and his spouse; (b) 30,000 Shares vested to Professor Chang on 12 June 2015 under the share award scheme adopted by the Company on 14 May 2014 (the "Share Award Scheme"); and (c) an aggregate of 160,000 Shares granted to Professor Chang on 13 June 2014 and 13 June 2015 subject to relevant vesting periods under the Share Award Scheme.

(4) These 1,185,000 Shares refer to (a) 120,000 Shares vested to the respective Directors on 12 June 2015 under the Share Award Scheme; and (b) an aggregate of 1,065,000 Shares granted to the respective Directors on 13 June 2014 and 13 June 2015 subject to relevant vesting periods under the Share Award Scheme.

(5) These 190,000 Shares refer to (a) 30,000 Shares vested to the respective Directors on 12 June 2015 under the Share Award Scheme; and (b) an aggregate of 160,000 Shares granted to the respective Directors on 13 June 2014 and 13 June 2015 subject to relevant vesting periods under the Share Award Scheme.

(6) The Shares granted to Mr. Wang on 13 June 2015 subject to relevant vesting periods under the Share Award Scheme.

Further details of the movements in the Share Award Scheme during the period under review are set out in the "Share Award Scheme" section.

Save as disclosed above, as at 31 December 2015, neither of the Directors nor chief executives of the Company had any interests or short positions in any Shares, underlying Shares or debentures of the Company or any of its associated corporations (within the meaning of Part XV of the SFO) (including interests or short positions which they are taken or deemed to have under such provisions of the SFO) and which were required to be entered into the register required to be kept under Section 352 of the SFO, or which were required to be notified to the Company and the Stock Exchange pursuant to the Model Code.

## SHARE AWARD SCHEME

On 14 May 2014, the Board approved the adoption of the Share Award Scheme with an objective to recognise the contributions from eligible employees within the Group and to give incentives in order to retain them for their continuing operation and development and to attract suitable personnel for further development of the Group.

Pursuant to the rules relating to the Share Award Scheme ("Scheme Rules"), shares are comprised of (i) shares purchased by the trustee out of cash arranged to be paid by the Company out of the Company's funds; and (ii) shares being held on trust for the relevant eligible grantees until such shares are vested with the relevant eligible grantees in accordance with the Scheme Rules (the "Award Shares"). The Board implements the Share Award Scheme in accordance with the terms of the Scheme Rules including the number of Award Shares is limited to 2% of the issued share capital of the Company as at the adoption date of the Share Award Scheme.

Under the Share Award Scheme, the Award Shares are granted to eligible employees of the Company or any one of its subsidiaries for no consideration but subject to certain conditions to be decided by the Board at the time of grant of the Award Shares under the Share Award Scheme. The Share Award Scheme will remain in force for 15 years from the date of adoption.

Pursuant to the Scheme Rules, the Board may upon the recommendation of the Remuneration Committee of the Company, from time to time, at their absolute discretion select the eligible grantees after taking into account various factors as they deem appropriate for participation in the Share Award Scheme as a grantee and determines the number of Award Shares to be awarded. The Board shall cause to pay the trustee the purchase price and the related expenses from the Company's resources for the Award Shares to be purchased by the trustee.

The trustee shall hold such Award Shares on trust for the eligible grantees until they are vested. When the relevant eligible grantee has satisfied all vesting conditions specified by the Board at the time of making the award and become entitled to the Award Shares, the trustee shall transfer the relevant Award Shares to that grantee. For awardees who cease employment with the Group before vesting, the unvested shares are forfeited. The forfeited shares are held by the trustee of the Share Award Scheme who may award such shares to other awardees taking into consideration recommendations from the Board.

The Board made its first grant of Award Shares under the Share Award Scheme on 13 June 2014 ("First Grant"). Such Award Shares are subject to vesting period in five tranches of 20% each of its awarded shares granted from the grant date to 12 June 2015, 12 June 2016, 12 June 2017, 12 June 2018 and 12 June 2019 respectively.

The Board made its second grant of the Award Shares under the Share Award Scheme on 9 February 2015 ("Second Grant"). Such Award Shares are subject to vesting period in five tranches of 20% each of its awarded shares granted from the grant date to 12 June 2015, 12 June 2016, 12 June 2017, 12 June 2018 and 12 June 2019 respectively.

## SHARE AWARD SCHEME (CONTINUED)

The Board made its third grant of Award Shares under the Share Award Scheme on 13 June 2015 ("Third Grant"). Such Award Shares are subject to vesting period in five tranches of 20% each of its awarded shares granted from the grant date to 12 June 2016, 12 June 2017, 12 June 2018, 12 June 2019 and 12 June 2020 respectively.

Movements of the Award Shares during the period under review are as follows:

| | Number of Award Shares | | | | | |
|---|---|---|---|---|---|---|
| | As at 1 July 2015 | Granted during the period under review | Transferred during the period under review | Vested during the period under review | Forfeited during the period under review | As at 31 December 2015 |
| Directors (Notes 1 and 3) | 3,355,000 | – | – | – | (200,000) | 3,155,000 |
| Employees (Notes 1, 2 and 3) | 8,965,000 | – | – | – | (2,048,000) | 6,917,000 |
| Total | 12,320,000 | – | – | – | (2,248,000) | 10,072,000# |

# Total number of Award Shares granted to the eligible grantees (excluded the Award Shares which were vested to the relevant grantees).

Notes:

1. These Award Shares were granted to eligible grantees under the First Grant which is subject to vesting period in five tranches of 20% each on 12 June 2015, 2016, 2017, 2018 and 2019 respectively.

2. These Award Shares were granted to eligible grantees under the Second Grant which is subject to vesting period in five tranches of 20% each on 12 June 2015, 2016, 2017, 2018 and 2019 respectively.

3. These Award Shares were granted to eligible grantees under the Third Grant which is subject to vesting period in five tranches of 20% each on 12 June 2016, 2017, 2018, 2019 and 2020 respectively.

As at 31 December 2015, 16,050,000 Award Shares had been granted under the Share Award Scheme, representing approximately 0.18% of the issued shares capital of the Company as at the adoption date of the Share Award Scheme.

## DISCLOSURE OF INFORMATION OF DIRECTORS

Pursuant to Rule 13.51B(1) of the Listing Rules, the changes in information of Directors subsequent to the date of the 2015 Annual Report of the Company (i.e. 22 September 2015) are set out below:

Mr. Lau Hon Chuen, an Independent Non-executive Director of the Company, is also the independent non-executive director of various listed companies, including, among others, Franshion Properties (China) Limited (Stock Code: 817). The company name of Franshion Properties (China) Limited was changed to China Jinmao Holdings Group Limited with effect from 9 September 2015.

## BOARD COMPOSITION

As at 31 December 2015, the Board consists of a total of eight Directors, comprising four Executive Directors, one Non-executive Director and three Independent Non-executive Directors.

## CORPORATE GOVERNANCE PRACTICES

During the six months ended 31 December 2015, the Company has complied with all the Code Provisions of the Corporate Governance Code (the "CG Code") as set out in Appendix 14 to the Listing Rules, except for the following deviation:

### Code Provision A.2.1

Under the code provision A.2.1 of the CG Code, the roles of chairman and chief executive officer ("CEO") should be separate and should not be performed by the same individual. The division of responsibilities between the chairman and CEO should be clearly established and set out in writing.

The Company attempts to comply with the CG Code with its best endeavours by appointing Dr. Yung Pak Keung Bruce ("Dr. Yung") as CEO on 16 July 2014, while Dr. Sit Kwong Lam ("Dr. Sit") as the chairman of the Company. Dr. Yung resigned as CEO with effect from 21 August 2015 and following his resignation, Dr. Sit, the chairman of the Company, was appointed as CEO on the same date.

Being aware of the said deviation from code provision A.2.1, but in view of the current rapid development of the Group, the Board believes that with the support of the management, vesting the roles of both chairman and CEO in the same person can facilitate the execution of the Group's business strategies and boost effectiveness of its operation. In addition, under the supervision by the Board which is comprised of three Independent Non-executive Directors and one Non-executive Director, which represent half of the Board, the interests of the Shareholders will be adequately and fairly represented.

The Company will seek to re-comply with code provision A.2.1 by identifying and appointing a suitable and qualified candidate to the position of the CEO in due course.

## COMPLIANCE WITH THE MODE CODE OF THE LISTING RULES

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules for securities transactions by Directors. The Directors have confirmed, following specific enquiry by the Company that they have complied with the required standard set out in the Model Code during the period under review.

## AUDIT COMMITTEE AND INDEPENDENT REVIEW BY EXTERNAL AUDITORS

As at 31 December 2015, the audit committee of the Company (the "Audit Committee") comprises three Independent Non-executive Directors namely Mr. Kwong Chan Lam ("Mr. Kwong"), Mr. Lau Hon Chuen and Professor Chang Hsin Kang. Mr. Kwong, being a certified public accountant, is the chairman of the Audit Committee.

The principal duties of the Audit Committee are to review with the management of the Company, the accounting principles and practices adopted by the Group and discuss internal controls and financial reporting matters including reviews of interim and annual financial statements.

The unaudited condensed consolidated financial statements for the six months ended 31 December 2015 have been reviewed by the Audit Committee.

The Group's external auditor, Messrs. Deloitte Touche Tohmatsu, has been appointed to review the condensed consolidated financial statements for the six months ended 31 December 2015. On the basis of their review, they are not aware of any material modifications that should be made to the condensed consolidated financial statements for the period under review.

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

During the period under review, neither the Company nor any of its subsidiaries purchased, sold or redeemed any listed securities of the Company, except that the trustee of the Share Award Scheme, pursuant to the terms of the trust deed of the Share Award Scheme, purchased on the Stock Exchange a total of 9,000,000 Shares in the Company at a total consideration of approximately HK$22,147,000.

## COMPLIANCE WITH CHAPTER 13 OF THE LISTING RULES

The following information is disclosed pursuant to Rules 13.18 and 13.21 of Chapter 13 of the Listing Rules:

(1) On 26 April 2010, Brightoil Lion Tanker Ltd., an indirect wholly-owned subsidiary of the Company, as borrower (the "Borrower I"), Credit Suisse AG, as lender (the "Lender I"), and the Company, as guarantor, entered into an 8-year term loan facility agreement (the "Facility Agreement I"). Pursuant to the Facility Agreement I, the Lender I makes available to the Borrower I a loan (the "Facility I") in the lowest of (i) US$31,500,000; (ii) 60% of the market value of the ship MT "Brightoil Lion" owned by the Borrower I; or (iii) 60% of the price payable by the Borrower I under the memorandum of agreement in relation to the sale and purchase of the above vessel. The Facility I is interest bearing, and is repayable in instalments on repayment dates specified in the Facility Agreement I. Any outstanding amounts shall be repaid in full on the date falling eight (8) years after the date of making of the loan.

Pursuant to the Facility Agreement I, the Company represented and warranted, among other things, that Dr. Sit, an executive Director and the controlling shareholder of the Company, shall remain the majority shareholder of the Company (the "Specific Performance Obligation I").

A breach of the Specific Performance Obligation I would constitute a default under the Facility Agreement I. Such default would permit the Lender I to: (i) cancel the Facility I; and/or (ii) declare that all or part of the loan made under the Facility Agreement I, together with accrued interest, and all other amounts accrued or outstanding be immediately due and payable; and/or (iii) declare that all or part of the loan made under the Facility Agreement I be payable on demand.

(2) On 14 January 2013, Brightoil Grace Tanker Ltd., an indirect wholly-owned subsidiary of the Company, as borrower (the "Borrower II"), Credit Suisse AG as lender (the "Lender II"), and the Company, as guarantor, entered into a loan agreement (the "Brightoil Grace Loan Agreement") pursuant to which the Lender II has agreed to grant a loan of up to US$65,000,000 to the Borrower II to part finance the acquisition of one very large crude carrier (the "Brightoil Grace Loan"). The Brightoil Grace Loan shall be fully repaid in eight (8) years.

Pursuant to the Brightoil Grace Loan Agreement, Dr. Sit and his descendants shall remain at all times in control (at least 51% of the issued shares of the Company) and management of the Company (the "Specific Performance Obligation II"). It will constitute an event of default if the Specific Performance Obligation II is breached whereupon the Lender II may, (i) cancel the Brightoil Grace Loan; and/or (ii) declare that all or part of the loan together with accrued interest and all other amounts accrued or owing under the Brightoil Grace Loan Agreement be immediately due and payable or due and payable on demand; and/or (iii) take any other action which it is entitled to take under the Brightoil Grace Loan Agreement.

## COMPLIANCE WITH CHAPTER 13 OF THE LISTING RULES (CONTINUED)

(3) On 2 July 2013, Brightoil Gem Tanker Ltd., an indirect wholly-owned subsidiary of the Company, as borrower (the "Borrower III"), China Development Bank Corporation Hong Kong Branch (the "Lender III"), and the Company, as guarantor, entered into a loan agreement (the "Brightoil Gem Loan Agreement") pursuant to which the Lender III has agreed to grant a loan of up to US$50,000,000 to the Borrower III for repayment of loan to shareholder for the purchase of MT "Brightoil Gem" (the "Brightoil Gem Loan"). The Brightoil Gem Loan shall be fully repaid in ten (10) years.

Pursuant to the Brightoil Gem Loan Agreement, Dr. Sit and his descendants shall remain at all times in control (at least 51% of the issued shares of the Company) and management of the Company (the "Specific Performance Obligation III"). It will constitute an event of default if the Specific Performance Obligation III is breached whereupon the Lender III may, (i) cancel the Brightoil Gem Loan; and/or (ii) declare that all or part of the loan together with accrued interest and all other amounts accrued or owing under the Brightoil Gem Loan Agreement be immediately due and payable; and/or (iii) declare that all or part of the loan be payable on demand and immediately become payable on demand.

(4) On 28 October 2013, Brightoil Glory Tanker Ltd., an indirect wholly-owned subsidiary of the Company, as borrower (the "Borrower IV"), China Development Bank Corporation Hong Kong Branch (the "Lender IV"), and the Company, as guarantor, entered into a facility agreement (the "Brightoil Glory Facility Agreement") pursuant to which the Lender IV has agreed to grant a loan of up to US$50,000,000 to the Borrower IV for repayment of loan to shareholder for the purchase of MT "Brightoil Glory" ("Brightoil Glory Loan"). The Brightoil Glory Loan shall be fully repaid in ten (10) years.

Pursuant to the Brightoil Glory Facility Agreement, Dr. Sit and his descendants shall remain at all times in control (at least 51% of the issued shares of the Company) and management of the Company (the "Specific Performance Obligation IV"). It will constitute an event of default if the Specific Performance Obligation IV is breached whereupon the Lender IV may, (i) cancel the Brightoil Glory Loan; and/or (ii) declare that all or part of the loan together with accrued interest and all other amounts accrued or owing under the Brightoil Glory Facility Agreement be immediately due and payable; and/or (iii) declare that all or part of the loan be payable on demand and immediately become payable on demand.

## COMPLIANCE WITH CHAPTER 13 OF THE LISTING RULES (CONTINUED)

(5) On 23 June 2014, Brightoil Gravity Tanker Ltd., Brightoil Galaxy Tanker Ltd., Brightoil 639 Oil Tanker Pte. Ltd., Brightoil 666 Oil Tanker Pte. Ltd. and Brightoil 688 Oil Tanker Pte. Ltd., indirect wholly-owned subsidiaries of the Company, as joint and several borrowers (the "Joint Borrowers V"), and Credit Suisse AG as lender (the "Lender V"), entered into a facility agreement (the "Facility Agreement V") pursuant to which the Lender V has agreed to grant a loan of up to US$120,000,000 to the Joint Borrowers V for refinancing the acquisition costs of two very large crude carriers and three double-hull bunker tankers (the "Facility Agreement Loan V"). In addition, the Company as the guarantor will be required to provide a separate guarantee to secure the liabilities of the Joint Borrowers V under the Facility Agreement V. The Facility Agreement Loan V shall be fully repaid in ten (10) years.

Pursuant to the Facility Agreement V, Dr. Sit and his descendants shall remain at all times in control (at least 51% of the issued shares of the Company) and management of the Company (the "Specific Performance Obligation V"). It will constitute an event of default if the Specific Performance Obligation V is breached whereupon the Lender V may, (i) cancel the Facility Agreement Loan V; and/or (ii) declare that all or part of the loan together with accrued interest and all other amounts accrued or owing under the Facility Agreement V be immediately due and payable or due and payable on demand; and/or (iii) take any other action which it is entitled to take under the Facility Agreement V.

By order of the Board
**Brightoil Petroleum (Holdings) Limited**
**Sit Kwong Lam**
*Chairman*

Hong Kong, 26 February 2016

## BOARD OF DIRECTORS

### Executive Directors

Dr. Sit Kwong Lam
*(Chairman and Chief Executive Officer)*
Mr. Tang Bo
Mr. Tan Yih Lin
Mr. Wang Wei

### Non-executive Director

Mr. Dai Zhujiang

### Independent Non-executive Directors

Mr. Lau Hon Chuen
Professor Chang Hsin Kang
Mr. Kwong Chan Lam

## AUDIT COMMITTEE

Mr. Kwong Chan Lam *(Chairman)*
Mr. Lau Hon Chuen
Professor Chang Hsin Kang

## REMUNERATION COMMITTEE

Professor Chang Hsin Kang *(Chairman)*
Mr. Kwong Chan Lam
Mr. Lau Hon Chuen
Dr. Sit Kwong Lam
Mr. Tan Yih Lin

## NOMINATION COMMITTEE

Mr. Lau Hon Chuen *(Chairman)*
Mr. Kwong Chan Lam
Professor Chang Hsin Kang
Dr. Sit Kwong Lam
Mr. Tan Yih Lin

## COMPANY SECRETARY

Mr. Tan Yih Lin

## AUDITOR

Deloitte Touche Tohmatsu

## PRINCIPAL SHARE REGISTRAR

MUFG Fund Services (Bermuda) Limited
The Belvedere Building
69 Pitts Bay Road
Pembroke HM08
Bermuda

## HONG KONG BRANCH SHARE REGISTRAR

Tricor Secretaries Limited
Level 22, Hopewell Centre
183 Queen's Road East
Hong Kong

## STOCK CODE

The Stock Exchange of Hong Kong Limited
Ordinary Share (Stock Code: 00933)

## WEBSITE

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## REGISTERED OFFICE

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## HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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