延長石油國際有限公司
YANCHANG PETROLEUM INTERNATIONAL LIMITED

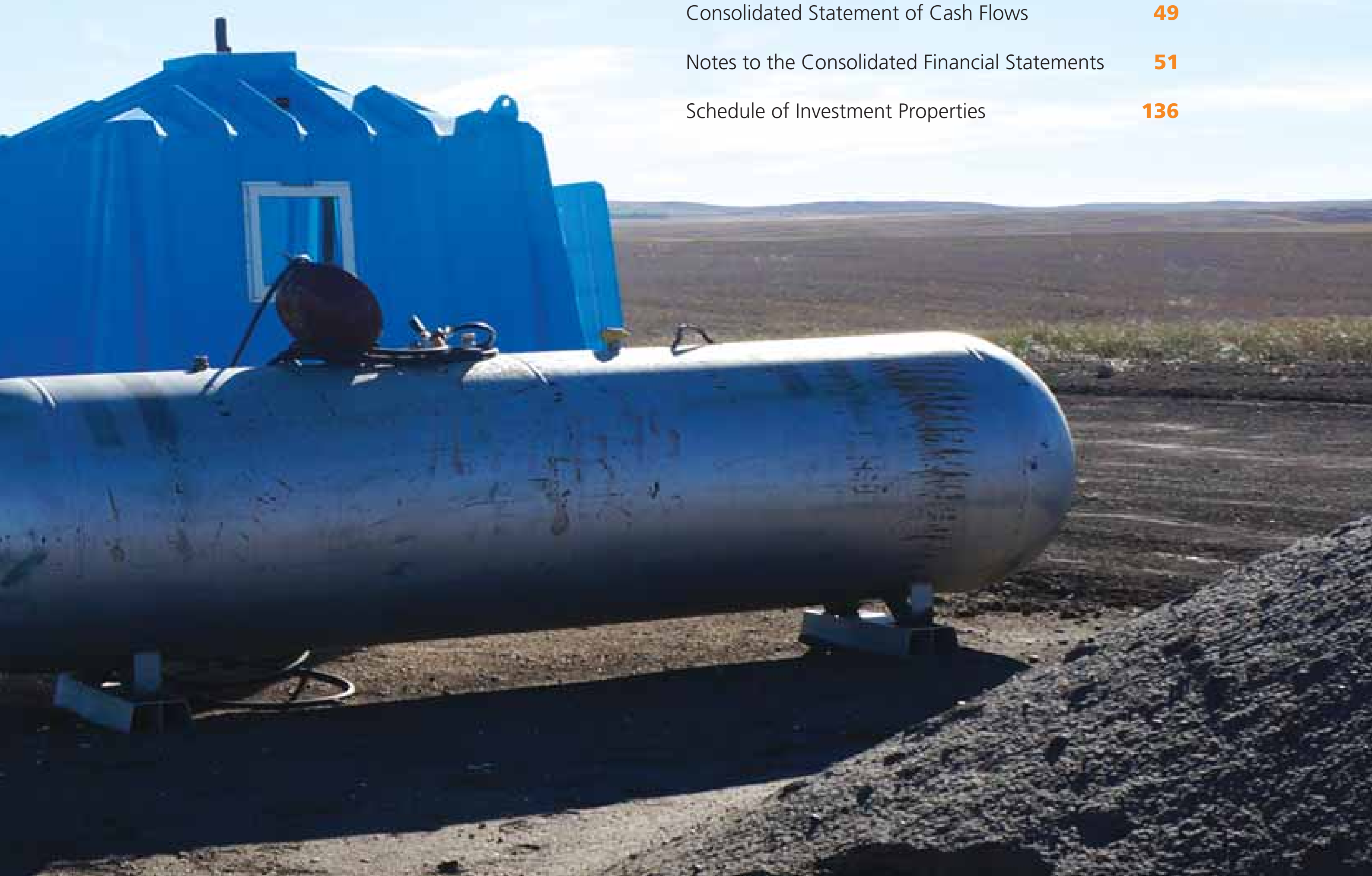
(Incorporated in Bermuda with limited liability)
Stock Code: 00346

Lighter Footing
For Longer Distance

2015

ANNUAL REPORT

CONTENTS



CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi *(Chairman)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Li Jun
Mr. Andres Pena Salceda

INDEPENDENT NON-EXECUTIVE DIRECTORS

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

COMPANY SECRETARY

Mr. Law Hing Lam

AUDIT COMMITTEE

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

REMUNERATION COMMITTEE

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

NOMINATION COMMITTEE

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

AUTHORISED REPRESENTATIVES

Mr. Hui Bo
Mr. Law Hing Lam

AUDITORS

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

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 22 Hopewell Center
183 Queen's Road East
Hong Kong

PRINCIPAL BANKERS

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

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

00346

WEBSITE

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CHAIRMAN'S STATEMENT

In 2015, the Company made great efforts to effectively overcome the challenges of depressed oil prices in the market. The Company had achieved production target for Novus Energy Inc. ("Novus") upstream oil and gas production business in Canada; and whereas in excess of the sales and profit targets for Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") downstream refined oil trading business in the PRC. The Company had also successfully completed the data processing and collection in relation to 2D seismic exploration for two oilfield blocks in Madagascar and obtained the approval for extension of exploration period for two years to 2017 from the government of Madagascar. In addition, the Company raised fund in the market for the first time to finance the development of the Company's business through issuance of convertible bonds of an aggregate principal amount of US$46.3 million by entering into a subscription agreement with CCB International (Holdings) Limited ("CCBI") in 2015.

BUSINESS REVIEW

In-production oil and gas business

In view of tumbling prices of the international crude oil, the management of the Company stationed at the frontline in Canada at the beginning of the year to suitably establish a set of management systems, including performance assessment system for defining responsibilities and targets of each department, weekly-meeting and weekly-report system for closer communication and cooperation between departments, oilfield precautionary and emergency system for controlling the adverse factors, such as bad weather conditions and facilities failure, and internal financial control system for controlling the risks relating to income and expense. By establishing and fine-tuning the management systems, Novus has been turning its management model from an extensive and innovative one in high-oil-price environment to an intensive and steady one which could be resilient to fluctuation of oil prices. Also, the establishment of the systems has closed the gap of cultural differences, facilitating better communications between the Company and the local management team of Novus.

In 2015, 7 wells were drilled and 12 wells were completed by Novus. Flaxcombe pipelines project and IPL sales pipeline connection project were also completed. Novus achieved average daily production of 3,873 barrels of oil equivalent ("BOE"), in excess of the target of 3,816 BOE. Under the lower-than-expected prices of commodities and a decrease in capital expenditure of CAD10 million, the achievement of production target was the result of the Company's effort towards the integration of Novus management and operation, leading to a decrease in operational costs of oil fields and also an increase in initial production volume of newly drilled wells.

BUSINESS REVIEW (Continued)

In-production oil and gas business (Continued)

Given market remains pessimistic over oil prices outlook in 2016, Novus will put its best efforts to meet its average daily production target, with lesser capital expenditure, by further elevating production of single well and reducing operational costs under the principles of stabilising production, balancing cash flow and reducing loss.

Refined oil trading business

Having been affected by the slump in international crude oil prices, refined oil prices in the PRC remained at a low level. Under such circumstances, the Company has conducted a number of counter measures, such as planning to fully utilised storage capacity as well as expanding oil sources and customer base in order to boost the sale and maximise the profit. In 2015, sales volume of refined oil was 3.9 million tonnes, representing an increase of 1.3 million tonnes or 50% as compared with the last year; revenue of refined oil trading was RMB19.3 billion, representing an increase of RMB2.2 billion or 13% as compared with the last year; and realised operating profit amounted to RMB69 million. The construction of Xingang sub-pipeline under the Lanzhou-Zhengzhou-Changsha refined oil pipeline with an investment of approximately RMB108 million is close to completion. The project has been running handovers as well as commissioning and maintenance upon electricity delivery at departure station.

In 2016, Henan Yanchang will focus on achieving sales target and profit target in a high effective manner without compromising safety, and accelerating completion, inspection and acceptance of the Xingang sub-pipeline so as to facilitate the commencement of the sub-pipeline with an aim to reduce transportation costs and become the new profit driver.

Exploration works

In 2015, the Company had completed data processing and collection in relation to 197 kilometer 2D seismic exploration for the Oilfield Block 2104 and 470 kilometer 2D seismic exploration for the Oilfield Block 3113. In light of the difficult environment of Madagascar, the Company had taken a series of effective measures with careful planning in advance, developed harmonious relationship with local communities, workers and farmers, observed the requirements of the government and the local custom and solved the problem of lacking logistic supports. The Company had completed quality data processing and collection in a safe and timely manner in such perplexing and challenging landscape, such as arduous hills, rivers, criss-cross in ravines and gullies and unification of agricultural lands. The exploration works have been highly respected and recognized by the government of Madagascar as well as by the local communities.

The Company entered into a supplemental agreement with Office Des Mines Nationales Et des Industries Strategiques ("OMNIS") in 2015 for the second extension of exploration period of the two oilfield blocks after delicate negotiations. The exploration period will be extended to November 2017.

Upon the completion of data processing and collection in relation to 2D seismic exploration for the Oilfield Blocks 2104 and 3113, the relevant data has been delivered to third party professional institutions involved for integrated geological study on exploration results. In 2016 and 2017, the Company will focus on analysis on initial exploration data of the two oilfield blocks, and carry out a basic comprehensive geological survey for the purpose of determining the next step plan.

CHAIRMAN'S STATEMENT

BUSINESS REVIEW (Continued)

Financing activities

In 2015, the Company achieved an important breakthrough for its financing in the market and raised fund from CCBI by issuing convertible bonds in the principal amount of US$46.3 million. Such successful fund raising activity demonstrated a new image of the Company to the market and represented a good start for subsequent financing activities. In addition, the Company will continue to seek quality investors to further improve the shareholding structure of the Company.

OUTLOOK

Notwithstanding the Group reported significant loss in 2015 as a result of substantial impairment made for oil and gas assets due to depression of oil prices, the Group merely recorded overall loss of HK$6.65 million as excluding the accounting effect of non-cash impairment of such assets. To the contrary, the refined oil business in the PRC recorded an encouraging profit before tax of RMB69 million. As such, the board of directors (the "Board") is of the view that the overall operation and financial position of the Group remain sound and intact.

Against the backdrop of the sluggish economy and the anticipation of continuously depressed oil prices, the Group will introduce various measures to mitigate the operational pressure, inter alia, stringent controls on the operating costs and capital expenditure so as to enhance the profitability and balance the cash flow. In addition, the management of the Company will closely seek for possibilities of assets reorganisation as well as opportunities for cooperation or merger and acquisition, with an aim to strengthen the Group's assets quality for risk resistance, protect the assets of the Group and secure the interests of the Company's shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on financial results

	2015 HK$'000	2014 HK$'000	Change in %
Revenue	**23,320,527**	22,346,997	4%
Other revenue	**12,728**	20,429	(38%)
Purchases	**(22,803,665)**	(21,385,786)	7%
Royalties	**(38,719)**	(88,022)	(56%)
Field operation expenses	**(83,000)**	(111,985)	(26%)
Exploration and evaluation expenses	**(2,968)**	(4,163)	(29%)
Selling and distribution expenses	**(15,030)**	(48,839)	(69%)
Administrative expenses	**(92,413)**	(127,069)	(27%)
Depreciation, depletion and amortisation	**(245,818)**	(300,158)	(18%)
Other gains and losses	**(4,660,561)**	(4,878,047)	(4%)
Finance costs	**(33,812)**	(45,038)	(25%)
Taxation	**116,622**	(36,744)	N/A
Loss for the year	**(4,526,109)**	(4,658,425)	(3%)
Basic and diluted loss per share, HK cents	**(37.41)**	(39.08)	(4%)

Revenue and segment results

For the year under review, the Group's operating segments comprised of: (i) exploration, exploitation and operation business; and (ii) supply and procurement business. During the year ended 31 December 2015, the Group's revenue was derived from the production of crude oil and natural gas in Canada as well as trading of refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of crude oil and natural gas in Western Canada. Novus achieved production of oil and gas of 1,414,000 BOE and contributed production income of HK$371,386,000 during the year under review. Due to crude oil prices dropped sharply in comparison with last year, which in turn had severe adverse impacts on its sales and profit margin, the exploration, exploitation and operation business recorded an operating loss of HK$40,962,000 this year in contrast of an operating profit of HK$247,797,000 last year.

For the year ended 31 December 2015, the revenue of trading of refined oil business increased by 7% from the last year of HK$21,530,572,000 to HK$22,949,141,000. Henan Yanchang achieved sales of refined oil of 3,910,000 tonnes for the year of 2015 and contributed operating profit of HK$108,145,000 to the supply and procurement business, similar to last year of HK$108,225,000.

FINANCIAL REVIEW (Continued)

Other revenue

Apart from the aforesaid segment results, other revenue of HK$12,728,000, which mainly represented interest income from bank deposits and rental income from the PRC properties recorded for the year under review, decreased by HK$7,701,000 from HK$20,429,000 of the last year.

Purchases

Purchases, increased from last year of HK$21,385,786,000 to this year of HK$22,803,665,000, were wholly derived from the trading of refined oil business under Henan Yanchang.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from last year of HK$88,022,000 to current year of HK$38,719,000 due to drop in oil prices and sale volume.

Field operation expenses

With tighter cost control in place, field operation expenses amounted to HK$83,000,000, decreased by HK$28,985,000 from last year of HK$111,985,000, including labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc were incurred by Novus in the production of crude oil and natural gas in Canada.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Exploration and evaluation expenses

Exploration and evaluation expenses decreased 29% to HK$2,968,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus.

Selling and distribution expenses

Selling and distribution expenses, dropped from the last year of HK$48,839,000 to the current year of HK$15,030,000, were mainly incurred by Novus. The decrease in the expenses was due to the fall of trucking cost as a result of the completion of pipelines connection projects in Novus.

Administrative expenses

Administrative expenses including Directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$34,656,000 and amounted to HK$92,413,000 for the year under review. Such decrease was mainly attributable to the absence of the substantial professional fees incurred for acquisition of Novus during last year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation expenses decreased from the last year of HK$300,158,000 to the current year of HK$245,818,000 which was mainly due to the decrease in depletion of petroleum and natural gas properties incurred by Novus as a result of decrease in production during the year under review.

Other gains and losses

The amount of HK$4,660,561,000 represented: (i) non-cash valuation impairment made on the two oilfield blocks in Madagascar, petroleum and natural gas properties in Canada and other oil related assets totally HK$4,659,447,000; (ii) written off of expired exploration and evaluation assets of HK$8,615,000; (iii) net foreign exchange loss of HK$6,647,000; and after offsetting (iv) gain on hedging of oil and gas commodity contracts of HK$10,448,000, fair value gain on investment properties of HK$1,011,000, fair value gain on derivative components of convertible bonds of HK$1,047,000 and gain on disposal of petroleum and natural gas properties of HK$1,642,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Finance costs

Finance costs amounted to HK$33,812,000 comprised of: (i) borrowing costs of HK$30,172,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang; (ii) accretion of HK$2,886,000 related to the provision of the decommissioning liabilities incurred by Novus; and (iii) imputed interest on convertible bond of HK$754,000 arisen from the issue of 3-year convertible bonds with a principal amount of US$46,300,000 carries at 5% coupon interest.

Taxation

Net tax income of HK$116,622,000 represented the aggregate of: (i) provision for Canada resource surcharge on Novus' production revenue of oil and gas amounted to HK$5,906,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$26,699,000; and after offsetting (iii) net deferred tax income amounted to HK$149,227,000.

Loss for the year

Excluding the accounting effect of the non-cash impairment loss of oil and gas assets and the related reversal of deferred tax liabilities as a result of low international crude oil prices, the Group strived to control costs and achieved to have a moderate overall loss of HK$6,652,000 in contrast of the accounting loss of HK$4,526,109,000 for the year under review.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Highlights on financial position

	2015 HK$'000	2014 HK$'000	Change in %
Property, plant and equipment	**1,878,740**	2,927,654	(36%)
Prepaid lease payments	**17,538**	19,935	(12%)
Investment properties	**29,458**	29,663	(1%)
Intangible assets	**47,848**	78,543	(39%)
Exploration and evaluation assets	**46,258**	4,165,163	(99%)
Goodwill	**51,418**	51,418	0%
Inventories	**29,347**	60,859	(52%)
Trade receivables	**236,784**	209,399	13%
Prepayments, deposits and other receivables	**115,412**	151,795	(24%)
Cash and bank balances	**886,690**	575,602	54%
Derivative financial instruments	**(4,383)**	18,687	N/A
Trade and other payables	**(467,392)**	(474,057)	(1%)
Bank borrowings	**(664,085)**	(928,118)	(28%)
Convertible bonds	**(353,792)**	–	N/A
Decommissioning liabilities	**(91,060)**	(111,227)	(18%)

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress. The decrease for the year was mainly attributable to the impairment loss on petroleum and natural gas properties of Novus in Canada and fluctuation in exchange rates.

Prepaid lease payments

Prepaid lease payments mainly represented the leasehold lands in the PRC owned by the Group. The decrease in the amount was mainly due to the impairment loss on the leasehold lands in Madagascar during the year.

Investment properties

Investment properties comprised of: (i) gas stations and properties in the PRC owned by Henan Yanchang either leased out in return of receiving rental income or hold for capital appreciation; and (ii) a land hold for capital appreciation in Madagascar.

Intangible assets

Intangible assets amounted to HK$47,848,000 as at 31 December 2015 represented the valuation and recognition of a refined oil supply agreement signed with Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group") which enables Henan Yanchang to have stable and sufficient supply of refined oil in the PRC. The decrease was mainly attributable to the non-cash valuation impairment made during the year.

FINANCIAL REVIEW (Continued)

Intangible assets (Continued)

The Company carried out an impairment testing on its intangible asset in relation to the refined oil supply agreement with reference to a valuation performed by an independent valuer, Colliers International (Hong Kong) Limited ("Colliers"), which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of HK$26,465,000 on the refined oil supply agreement has been made for the year ended 31 December 2015 as a result.

Colliers considered that the market approach is not used as there are lack of financial information and full details regarding sales of similar assets and there are no similar subject assets in the market for comparison purpose, while the cost approach is not considered to be an appropriate approach for valuing income-generating assets as it does not capture expected returns to the asset. Income approach has been consistently adopted for impairment testing of the said intangible asset. Income approach estimates the future economic benefits to be generated from the refined oil supply agreement and discounts these benefits to its present value using a pre-tax discount rate of 21.5%. The recoverable amount of the refined oil supply agreement is its value in use and has been determined based on cash flow projections covering 3-year period.

The Company considered that such impairment loss was the combined effects of the decrease in gross profit margin due to significant decrease in crude oil prices, and the decrease in refined oil supplied from Yanchang Petroleum Group.

Exploration and evaluation assets

Exploration and evaluation assets represented: (i) the valuation of the Oilfield Blocks 2104 and 3113 in Madagascar; (ii) the exploration costs put into the Oilfield Blocks 2104 and 3113 during the years; and (iii) the undeveloped land owned by Novus as at 31 December 2015. The decrease of such assets was mainly attributable to the non-cash valuation impairment recognised on the Oilfield Blocks 2104 and 3113 in Madagascar during the year.

In view of substantial time and resources have been put into the exploration works on the two oilfield blocks in Madagascar over the years by the Group, and yet the oilfields have not commenced production. After assessment on data and information collected from the exploration and evaluation activities carried out by the Group during the past few years, and having considered various factors, inter alia, the trend of global oil and gas prices expected to remain low going forward, the Company based on principal of prudence and determined to carried out a thorough review as to whether commercially recoverable reserves justified in the Oilfield Blocks 2104 and 3113 in Madagascar.

To assess whether the Oilfield Blocks 2104 and 3113 in Madagascar are still economic beneficial to the Group, the Company engaged an independent valuer, Roma Oil and Mining Associate Limited ("Roma"), which has appropriate qualification and experience in the valuation of similar assets and in the preparation of a competent person's report in accordance with the current requirements of the Chapter 18 of the Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

According to the competent person's report that 1) there are only prospective resources technically justified and considered that it has not led to the discovery of commercially viable quantities; 2) the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full by sale; and 3) the rights to explore in the Oilfield Blocks 2104 and 3113 will expire on November 2017 and thereafter to be renewed is not certain. In addition, the estimated expenditure to further develop the Oilfield Blocks 2104 and 3113 is substantial. After taking into account of the above key factors, the technically feasibility or commercial viability of the Oilfield Blocks 2104 and 3113 are remote.

FINANCIAL REVIEW (Continued)

Exploration and evaluation assets (Continued)

Since there are only prospective resources technically justified in the Oilfield Blocks 2104 and 3113 in Madagascar, the Group considered that there are no economic reserves in the Oilfield Blocks 2104 and 3113 and the inflow of future economic benefit is not probable. As such, impairment loss of HK$4,138,179,000 on the exploration and evaluation assets in relation to the Oilfield Blocks 2104 and 3113 has been made for the year ended 31 December 2015.

Goodwill

Resulting from the acquisition of 70% interests in Henan Yanchang in 2011, a goodwill of HK$51,418,000 arising on consolidation was recorded. Since no impairment subsequent to the acquisition has been made during the year, the amount of such goodwill remained the same as at 31 December 2015.

Inventories

Inventories represented refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2015.

Trade receivables

Trade receivables represented account receivables from customers of oil and gas production business from Novus in Canada and from customers of refined oil trading business from Henan Yanchang in the PRC as at 31 December 2015.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables mainly represented prepayments made for the purchases of refined oil by Henan Yanchang for its refined oil trading business.

Cash and bank balances

As at 31 December 2015, cash and bank balances increased by HK$311,088,000 to HK$886,690,000 as compared to the last year of HK$575,602,000 mainly due to the fund raised from the issue of convertible bonds.

Derivative financial instruments

The amount mainly represented the fair values of conversion option to convert the convertible bonds into ordinary shares of the Company and the fair values of put option for the convertible bonds holder choose to early redeem the convertible bonds before maturity date.

Trade and other payables

Trade and other payables mainly represented account payables to suppliers and prepayments received in advance from customers for Henan Yanchang refined oil trading business as at 31 December 2015.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Bank borrowings

The amount represented loans from banks of Canada and the PRC used to finance the oil and gas production business in Canada and refined oil trading business in the PRC respectively.

Convertible bonds

The amount represented the 3-year convertible bonds with coupon rate of 5% issued during late year of 2015.

Decommissioning liabilities

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings and convertible bonds for the year ended 31 December 2015.

	2015 HK$'000	2014 HK$'000
Current assets	**1,273,914**	1,018,410
Total assets	**3,345,174**	8,290,786
Current liabilities	**1,135,860**	1,402,175
Total liabilities	**1,597,267**	1,704,876
Total equity	**1,747,907**	6,585,910
Gearing ratio	**91.4%**	25.9%
Current ratio	**112.2%**	72.6%

The Group had outstanding variable rates bank borrowings amounted to HK$664,085,000 as at 31 December 2015 (31 December 2014: HK$928,118,000) comprised of: (i) RMB80,000,000 (equivalent to HK$94,088,000) under Henan Yanchang; and (ii) CAD102,150,000 (equivalent to HK$569,997,000) under Novus. The Group has obtained bank facilities of RMB700 million (equivalent to HK$823,270,000) from banks in the PRC and of CAD125 million (equivalent to HK$697,500,000)from a bank in Canada.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

On 23 December 2015, the Company raised fund from the issue of convertible bonds to CCBI in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 5% and matures on the third anniversary date from the date of issue. The fund raised is intended to be used for the Group's general working capital and provide additional capital base for the future growth and development of the Group's business.

As at 31 December 2015, the Group had cash and bank balances of HK$886,690,000 (31 December 2014: HK$575,602,000). In view of ample cash on hand together with the available banking facilities, the Group has sufficient working capital to finance its business operation.

As at 31 December 2015, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 91.4% (31 December 2014: 25.9%). The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 112.2% as at 31 December 2015 (31 December 2014: 72.6%).

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities in Canada. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. During the year ended 31 December 2015, Novus had entered nine commodity contracts for crude oil and gas business to manage price risk.

TREASURY MANAGEMENT AND POLICIES

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

Cash has been generally placed in short-term deposits denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. The Group has obtained banking facilities and borrowings with stable interest rates. The Group does not foresee any significant interest rate risks. The Group's transactions and investment are mostly denominated in Hong Kong dollar, US dollar, Canadian dollar and Renminbi. As the Group's policy is to have its operating entities to operate in their corresponding local currencies to minimize currency risks, therefore the Group does not anticipate material foreign exchange exposures and risks.

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals for the year ended 31 December 2015.

SIGNIFICANT INVESTMENTS

Save as holding 21% equity interests in Gold Grand Investments Limited, the Group did not hold any significant investments during the year ended 31 December 2015.

CAPITAL COMMITMENTS

As at 31 December 2015, the Group had committed to property, plant and equipment amounted to HK$19,331,000 (31 December 2014: HK$24,991,000) as well as exploration and evaluation cost amounted to HK$Nil (31 December 2014: HK$1,974,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2015.

PLEDGE OF ASSETS

The Group's CAD125 million (31 December 2014: CAD130 million) banking facilities, granted by a bank in Canada to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee, is secured in favour of the bank by a general assignment of book debts and a CAD200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request.

Save as the aforesaid, none of the Group's other assets had been pledged for granting the bank borrowings (31 December 2014: Nil).

CONTINGENT LIABILITIES

As at 31 December 2015, the Group did not have any significant contingent liabilities (31 December 2014: Nil).

LITIGATION

As at 31 December 2015, the Group had no material litigation (31 December 2014: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2015, the Group's total number of staff was 132 (2014: 132). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2015 amounted to HK$52,920,000 (2014: HK$59,276,000). Remuneration policy is based on principle of equality, motivation, performance and prevailing market practice and remuneration packages are normally reviewed on an annual basis. Other staff benefits including provident fund, medical insurance coverage and share option scheme are offered to employees. No share options were granted to the eligible participants under the Company's share option scheme during the year ended 31 December 2015 (31 December 2014: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

HEALTH, SAFETY AND ENVIRONMENT POLICIES

The Group is committed to ensuring a safe and healthful workplace and the protection of the environment. The Company believes that safety and protecting the environment is important to good business and that all work-related injuries, illnesses, property losses and adverse environmental impacts are preventable. There are no loss time accidents occurred in 2015 and 2014.

The Group's health, safety and environment polices include:

- Make health, safety and environmental considerations a top priority.
- Work actively to continuously improve safety and environmental performance.
- Identify potential risks and hazards before work begins.
- Encourage personnel to be individually responsible for identifying and eliminating hazards.
- Ensure personnel have sufficient training, resources and systems.
- Provide and maintain properly engineered facilities, plants and equipment.
- Actively monitor, audit and review to improve systems, processes, environmental and safety performance.
- As a minimum, ensure regulatory compliance at all times.

No environmental claims, lawsuits, penalties or administrative sanctions were reported to the Company's management. The Company is of the view that the Group were in compliance with all relevant laws and regulations in Hong Kong, Canada, the PRC and Madagascar, regarding environmental protection in all material respects during the year under review and as at the date of this annual report. The Group has also adopted and implemented the environmental policies on a standard which is not less stringent than the prevailing environmental laws and regulations of Hong Kong, Canada, the PRC and Madagascar.

RELATIONSHIP WITH SUPPLIERS, CUSTOMERS AND OTHERS

The Group understands the importance of maintaining a good relationship with its suppliers and customers to meet its immediate and long-term goals. The Group has built up long-term relationship with suppliers and customers. During the year under review, there were no material and significant dispute between the Group and its suppliers and/or customers.

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

This section provides supplemental information on oil and gas activities in accordance with the Chapter 18 of the Listing Rules of the Stock Exchange.

A. INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES

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

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

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

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

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

The Group engaged an independent third party consulting firm, Sproule Associates Limited ("Sproule") to evaluate the Group's estimation on proved and probable reserves as at 31 December 2015 and its opinion that the reserve estimates are reasonable.

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

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

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

	Canada		
Net proved reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2015	12,285.0	14,124.0	14,639.0
Acquisition	298.5	807.0	433.0
Production	(1,193.5)	(1,314.0)	(1,412.5)
Discoveries & revisions	(28.4)	3,473.0	550.4
At 31 December 2015	11,361.6	17,090.0	14,209.9

	Canada		
Net probable reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2015	6,467.8	7,675.0	7,747.0
Acquisition	189.1	522.0	276.1
Discoveries & revisions	(278.2)	1,594.0	(12.5)
At 31 December 2015	6,378.7	9,791.0	8,010.6

	Canada		
Net proved + probable reserves	**Oil and natural gas liquids** (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2015	18,752.8	21,799.0	22,386.0
Acquisition	487.6	1,329.0	709.1
Production	(1,193.5)	(1,314.0)	(1,412.5)
Discoveries & revisions	(306.6)	5,067.0	537.9
At 31 December 2015	17,740.3	26,881.0	22,220.5

Notes:

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

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

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

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

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	**Madagascar**
Exploration activities:	Nil	470 kilometer 2D seismic data collection in the Oilfield Block 3113
Development activities:	7 wells drilled 12 wells completed	Nil
Production activities:	Average daily net production Oil: 3,271 bbls Gas: 3,610 mcf	Nil

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

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2015:

	Canada HK$'000	**Madagascar** HK$'000	**Total** HK$'000
Exploration costs	634	38,178	38,812
Developments costs	98,508	–	98,508
Production costs *(note)*	83,000	–	83,000

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

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS

Mr. Li Yi

Aged 52, was appointed as an executive Director and Chairman of the Board on 12 January 2016. Mr. Li is currently a Party Committee member and a vice supervisor of 延長石油集團財務中心 (Financial Centre of Yanchang Petroleum Group) as well as an executive director and general manager of 陝西延長石油投資有限公司 (Shaanxi Yanchang Petroleum Investment Company Limited). Mr. Li joined Yanchang Petroleum Group since October 2002 first as a Party Committee secretary and general manager of 下寺灣鑽採公司 (Xiasiwan Oil Drilling Company), and then assumed the position as Party Committee secretary and in-charge person of 下寺灣採油廠 (Xiasiwan Oil Exploitation Factory) both under Yanchang Petroleum Group. In addition, Mr. Li had worked with 甘泉縣財政局 (Ganquan County Finance Bureau) in Shaanxi Province with his last position being of vice minister during the period from March 1989 to October 2002. He graduated from 陝西財經學院 (Shaanxi Institute of Finance and Economics) major in accountancy, and from 中國石油大學（華東）(University of Petroleum (East China)) major in petroleum engineering after the commencement of his career. He is also a senior accountant. Mr. Li has strong corporate leadership capability and is also well experienced in accounting and financial management as well as operation and management in the petroleum business. Save as the aforesaid, Mr. Li did not hold any directorship in other listed companies during the past three years.

Mr. Ren Yansheng

Aged 50, was appointed as an executive Director and the Chief Executive Officer of the Company on 10 April 2012. Mr. Ren holds a master's degree in Economic, majoring in accountancy profession from 中國人民大學 (Renmin University of China), and is a qualified accountant registered in China. Mr. Ren is engaged in the finance and investment management areas for more than 20 years. Mr. Ren had acted as an independent director of 河南東方銀星投資股份有限公司 (Henan Oriental Silver Star Investment Co., Limited) (a company listed on the Shanghai Stock Exchange, SH.600753) and worked in 中國新興（集團）總公司 (China Xinxing (Group) Corporation) and 中國誠信證券評估有限公司 (China Cheng Xin Securities Appraisal Company Limited), where he was involved in such areas as financial management as well as investment consultancy and management. Mr. Ren has extensive experience in corporate investment and finance, corporate restructuring and issuance of securities. Mr. Ren is currently a director of certain subsidiaries of the Company, including Yanchang International (Canada) Limited ("YC Canada") and Novus Energy Inc. ("Novus"). Mr. Ren is also the chief executive officer of each of YC Canada and Novus. Save as the aforesaid, Mr. Ren did not hold any directorship in other listed companies during the past three years.

During the year ended 31 December 2015, Mr. Ren's annual remuneration has been revised from HK$2,400,000 to HK$2,880,000 with effect from 1 April 2015.

Mr. Hui Bo

Aged 42, was appointed as an executive Director, the authorized representative of the Company and a member of each of the remuneration committee and the nomination committee of the Company on 1 April 2012. He was also appointed as the Vice President of the Company on 10 April 2012. Mr. Hui is currently the deputy general manager of Yanchang Petroleum Group (Hong Kong) Co., Limited, and the manager of 延長石油集團財務中心證券部 (Securities Department of the Financial Centre of Yanchang Petroleum Group). Mr. Hui holds a bachelor's degree majoring in computer in the department of computer science from 中國長沙國防科技大學 (University of National Defense Technology) in Changsha, China, and then was granted the e-commerce master's degree by the business school of University of Montreal, Canada, and has passed the first level of the Chartered Financial Analyst (CFA). Mr. Hui had worked in 西安衛星測控中心 (Xi'an Satellite Control Centre), 西安高新技術產業開發區管委會 (the management committee of Xi'an Hi-tech Industry Development Zone) and a securities company, SWIFTTRADE, in Montreal, Canada. Mr. Hui has extensive experience in international capital market investments and is familiar with international and domestic securities markets. Mr. Hui is currently a director and/or legal representative of certain subsidiaries of the Company. Mr. Hui did not hold any directorship in other listed companies during the past three years.

EXECUTIVE DIRECTORS (Continued)

Mr. Shen Hao

Aged 62, was appointed as an executive Director on 11 January 2010. Mr. Shen holds a postgraduate qualification and is a senior engineer. He was formerly the chairman of Yanchang Petroleum Group and is currently the party committee secretary. Mr. Shen is the leader of several government departments and state-owned enterprises engaged in oil and natural gas exploration and exploitation, and coal chemical production and operation. He has abundant leadership experience in the oil, gas and coal chemical industries. He was the president of 陝西銅川礦務局 (Tongchuan Mining Bureau of Shaanxi), vice general manager of 陝西省煤炭運銷(集團)有限責任公司 (Shaanxi Coal Transportation of Marketing (Group) Limited), the chairman of 陝西省彬長礦區開發建設公司 (Shaanxi Binchang Mining Development and Construction Company), the chairman of 陝西省煤業集團 (Shaanxi Coal Industrial Group) and the chairman of 陝西省煤業化工集團有限責任公司 (Shaanxi Coal Chemical and Industrial Group Limited). He was a representative of the 17th National Congress of the Communist Party of China, a representative of the 11th Provincial Party Congress of Shaanxi, the alternate member of the Commission of Communist Party of Shaanxi Province, the representative of the 9th and 11th People's Congress of Shaanxi Province and a committee member of the 9th Chinese People's Political Consultative Conference. Mr. Shen was elected as the executive vice president of China Petroleum Enterprise Association in September 2009. Mr. Shen did not hold any directorship in other listed companies during the past three years.

Mr. Feng Dawei

Aged 59, was appointed as an executive Director on 11 January 2010. Mr. Feng holds a bachelor's degree in Northwestern Polytechnical University in the PRC and a master's degree in chemical engineering. He is a senior engineer and has decades of leadership experience and professional knowledge in oil and natural gas exploration, exploitation and processing, petrochemical and coal chemical. He is currently the deputy general manager and the party committee member of Yanchang Petroleum Group. He was the vice president and president of planning office of 陝西省石油化學工業局規劃處 (Shaanxi Petroleum Chemical and Industrial Bureau) and the deputy general manager of 陝西省延長石油工業集團公司 (Shaanxi Yanchang Petroleum Industrial Group Company). Mr. Feng did not hold any directorship in other listed companies during the past three years.

Mr. Li Jun

Aged 38, was appointed as an executive Director on 12 January 2016. Mr. Li is currently the department head of 國際合作部 (International Cooperation Department) of Yanchang Petroleum Group. Mr. Li Jun has worked with the said department since May 2008 and was successively the supervisor and the deputy department head. Mr Li has been involved in foreign investment and cooperation for a considerable period of time and possesses solid experience in external cooperation and project management. He obtained a bachelor's degree and a master's degree in microelectronics and solid-state electronics from 西安電子科技大學 (Xidian University) in Xian. He is also a senior engineer. Save as the aforesaid, Mr. Li did not hold any directorship in other listed companies during the past three years.

EXECUTIVE DIRECTORS (Continued)

Mr. Andres Pena Salceda

Aged 51, was appointed as an executive Director on 22 August 2014. Mr. Pena Salceda is currently the Group Vice President of Copower Enterprise Group Limited and the chairman of the Mexican Chamber of Commerce for Hong Kong and Macau. Mr. Pena Salceda had been the former Consul General of Mexico for Hong Kong and Macau (Acting), the former Deputy Consul General at Consulate General of Mexico Shanghai and the Chief of Staff to the Chief of Protocol of the Mexican Foreign Ministry, and so acquired extensive experience in international and political diplomacy. Mr. Pena Salceda is currently the managing director of each of OFSCap and Oil and Gas Asset Clearing House, Houston, Texas, USA. The former corporation is an energy investment and merchant bank whereas the latter is a firm offers auction, negotiated transaction, technical evaluation, electronic data presentation and delivery services. Besides, he is currently the Advisory Board member of Walker Global Energy, LLC, Washington DC, USA, the holding company for Walker Energy International LLC, which provides expertise for project development as well as arranging crude materials for refining. He is also the regional director for Latin America, ACN Worldwide, Shanghai Office, a leading's real estate service platform in PRC. Mr. Pena Salceda obtained a Master degree in Public Policy from the National University of Singapore and a Bachelor of Arts degree in International Relations from the United States International University in San Diego, California, U.S. He is also a member of the Independence Power Producers Forum. Mr. Pena Salceda had obtained professional oil and gas trainings organized by the international oil and gas services corporations and possesses more than 20 years extensive experience in the areas of international business development, project management, strategic consulting and public relations. Mr. Pena Salceda did not hold any directorship in other listed companies during the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. NG Wing Ka

Aged 46, was appointed as an independent non-executive Director on 7 January 2005. Mr. Ng is also the chairman of the nomination committee and a member of the audit committee of the Company. Mr. Ng graduated with a Bachelor of Laws degree and a Post-graduated Certified in Laws Degree from The University of Hong Kong. He is the partner of Tung, Ng, Tse & Heung, Solicitors. He is now the legal adviser as to Hong Kong laws of the Foreign Economics and Trade Committee of the People's Government of Chongqing City (重慶市對外經濟貿易委員會) and 中豪律師事務所 in Chongqing City, the PRC. Mr. Ng is also the vice president of The Chinese Manufacturers' Association of Hong Kong and a member of the Chinese People's Political Consultative Conference of Chongqing City, the PRC. Mr. Ng is now an independent non-executive director of China Weaving Materials Holdings Limited (a company listed on the Stock Exchange). Save as the aforesaid, Mr. Ng did not hold any directorship in other listed companies in the past three years.

Mr. Leung Ting Yuk

Aged 41, was appointed as an independent non-executive Director on 3 December 2009. Mr. Leung is also the chairman of the audit committee and a member of the remuneration committee of the Company. Mr. Leung holds a bachelor of Commerce with major in accounting in University of Wollongong, Australia. He is a member of the Certified Practicing Accountants, Australia and the Hong Kong Institute of Certified Public Accountants. He has over 14 years' experience in financial management, accounting and auditing. Mr. Leung had been employed as the chief financial officer of ZMFY Automobile Glass Services Limited ("ZMFY") (a company listed on the Stock Exchange) since 31 October 2012 up to 17 February 2015. ZMFY is a company engaged in the sales and installation of automobile glasses in China. Mr. Leung was responsible for the preparation of ZMFY's financial statements as well as the review and development of the effective financial policies and control procedures in ZMFY. Mr. Leung is currently employed as the chief financial officer of ASD International Holdings Limited which is a company engaged in the sale of imaging electronic components, Original Design Manufacturer (ODM) and Original Brand Manufacturer (OBM) video and imaging electronic. Save as the aforesaid, Mr. Leung did not hold any directorship in other listed companies in the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Mr. Sun Liming

Aged 62, was appointed as an independent non-executive Director, the chairman of the remuneration committee and a member of each of the audit committee and the nomination committee of the Company on 1 April 2012. Mr. Sun holds a bachelor's degree in management engineering from Xi'an Jiaotong University, is currently the managing director of Lishan Company Limited. Mr. Sun ever worked in state-owned sectors for various economic and financial positions, and served as the chief economist in 中國電子進出口陝西公司 (China Electronics Import and Export Shaanxi Company). Mr. Sun has extensive experience in corporate planning, and economic and financial management. Mr. Sun did not hold any directorship in other listed companies during the past three years.

Dr. Mu Guodong

Aged 58, was appointed as an independent non-executive Director on 28 December 2012. Dr. Mu was graduated from the School of Economics and Finance of Xi'an Jiaotong University (formerly known as "Shaanxi Institute of Finance & Economics") with a Master degree of Economics in 1988. He was appointed by the State Education Commission of the People's Republic of China as a visiting scholar of Macquarie University in Australia in 1993. Dr. Mu obtained the Endeavour Awards from the Australian Government to study the doctor's degree of Economics in 1995, and obtained his Doctor of Philosophy degree from The University of New England in 2001. Dr. Mu had been acted as the assistant to the general manager of the business development department of China Merchants Group Limited, the controlling shareholder of China Merchants Holdings (International) Company Limited (stock code: 144), a company listed on the Stock Exchange. Dr. Mu is now the assistant to the general manager of China Merchants Capital Limited and the general manager of the Fundraising and IR Department of China Merchants Capital Management (International) Limited. He is also currently the supervisor of each of the supervisory committee of 招商崑崙股權投資管理有限公司 (China Merchants Kunlun Equity Investment Management Co., Ltd.) and 中新建招商股權投資基金 (Zhong Xinjian Merchants Equity Investment Fund). Dr. Mu has extensive experience in corporate finance and management, merger and acquisition and corporate restructuring. He has led and participated in numbers of large-scale merger and acquisition projects over the past ten years, which included the projects of China Merchants Group Limited in Vietnam and Sri Lanka, the project of highway merger integration and the project of Qianhai Bonded Port Area in Shenzhen. Dr. Mu did not hold any directorship in other listed companies during the past three years.

COMPANY SECRETARY

Mr. Law Hing Lam

Aged 52, was appointed as the company secretary of the Company on 21 March 2011. Mr. Law is a member of the Hong Kong Institute of Certified Public Accountants and also a member of the American Institute of Certified Public Accountants. Mr. Law has extensive experience in accounting, auditing and finance. He was also appointed as the Chief Financial Officer and an authorised representative of the Company. Mr. Law is also currently the chief financial officer of YC Canada and Novus.

REPORT OF THE DIRECTORS

The Directors have pleasure in submitting their report together with the audited consolidated financial statements of the Group for the year ended 31 December 2015.

PRINCIPAL ACTIVITIES AND BUSINESS REVIEW

The principal activity of the Company is investment holding. The principal activities of the Group engaged in supply and procurement operation of oil related products in the PRC as well as oil and gas exploration, exploitation, sale and operation in Canada and Madagascar. Further discussion and analysis of these activities as required by Schedule 5 to the Companies Ordinance, including a discussion of the principal risks and uncertainties facing the Group and an indication of likely future developments in the Group's business, are set out in the Chairman's Statement section on pages 3 to 5 and the Management Discussion and Analysis section on pages 6 to 16 of the annual report.

SEGMENT INFORMATION

As analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2015 is set out in Note 7 to the consolidated financial statements.

RESULTS AND APPROPRIATIONS

The results of the Group for the year ended 31 December 2015 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 44 to 46. The state of affairs of the Company on 31 December 2015 is set out in Note 43 to the consolidated financial statements.

The Directors do not recommend the payment of any dividend in respect of the year (2014: Nil).

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December				9 months ended 31 December
	2015	2014	2013	2012	**2011**
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**22,320,527**	22,346,997	19,354,899	7,572,880	512,210
(Loss)/profit before taxation	**(4,642,731)**	(4,621,681)	78,108	(75,468)	(138,823)
Taxation	**116,622**	(36,744)	(25,274)	(1,785)	(5,465)
(Loss)/profit for the year/period	**(4,526,109)**	(4,658,425)	52,834	(77,253)	(144,288)
(Loss)/profit attributable to					
– Owners of the Company	**(4,544,205)**	(4,634,817)	30,920	(77,656)	(149,335)
– Non-controlling interests	**18,096**	(23,608)	21,914	403	5,047
	(4,526,109)	(4,658,425)	52,834	(77,253)	(144,288)

SUMMARY OF FINANCIAL INFORMATION (Continued)

Assets and liabilities

	At 31 December				
	2015	2014	2013	2012	2011
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,071,260**	7,272,376	9,346,385	9,303,904	9,193,510
Current assets	**1,273,914**	1,018,410	1,007,356	975,623	216,528
Total assets	**3,345,174**	8,290,786	10,353,741	10,279,527	9,410,038
Current liabilities	**(1,135,860)**	(1,402,175)	(481,831)	(491,922)	(358,251)
Non-current liabilities	**(461,407)**	(302,701)	(85,560)	(84,881)	(85,425)
Total liabilities	**(1,597,267)**	(1,704,876)	(567,391)	(576,803)	(443,676)
Total equity	**1,747,907**	6,585,910	9,786,350	9,702,724	8,966,362

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

PROPERTY, PLANT AND EQUIPMENT AND INVESTMENT PROPERTIES

Details of movements in the property, plant and equipment and investment properties of the Group during the year are set out in Notes 17 and 19 to the consolidated financial statements respectively.

SHARE CAPITAL AND SHARE OPTIONS

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

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 47.

PRE-EMPTIVE RIGHTS

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

REPORT OF THE DIRECTORS

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

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

DISTRIBUTABLE RESERVES

At 31 December 2015, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, amounted to HK$Nil. This amount included the Company's contributed surplus in the amount of HK$6,454,818,000 at 31 December 2015, which may only be distributed in certain circumstances. In addition, the Company's share premium account, in the amount of HK$Nil at 31 December 2015, may be distributed in the form of fully paid bonus shares.

MAJOR CUSTOMERS AND SUPPLIERS

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

(1) The aggregate amount of sales attributable to the Group's five largest customers represented 74% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 38%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 63% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 16%.

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

MATERIAL RELATED PARTY TRANSACTIONS

Details of the material related party transactions of the Group are set out in Note 41 to the consolidated financial statements.

PENSION SCHEMES AND COSTS

Details of the Group's pension schemes and costs charged to the consolidated statement of comprehensive income for the year are set out in Note 36 to the consolidated financial statements.

At 31 December 2015, the Group did not have any significant obligations for long service payments to its employees pursuant to the requirements under the Employment Ordinance, Chapter 57 of the Laws of Hong Kong.

REPORT OF THE DIRECTORS

DIRECTORS

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

Executive Directors

Mr. Li Yi *(Chairman) (appointed on 12 January 2016)*
Mr. Ren Yansheng *(Chief Executive Officer)*
Mr. Hui Bo *(Vice President)*
Mr. Shen Hao
Mr. Feng Dawei
Mr. Li Jun *(appointed on 12 January 2016)*
Mr. Andres Pena Salceda
Mr. Zhang Kaiyong *(Chairman) (resigned on 12 January 2016)*
Mr. Zhao Jie *(resigned on 12 January 2016)*

Independent Non-executive Directors

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

Pursuant to Bye-law 86(2) of the Company's Bye-laws, Mr. Li Yi and Mr. Li Jun are subject to re-election at the forthcoming annual general meeting ("2016 AGM") of the Company.

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Leung Ting Yuk, Mr. Sun Liming and Dr. Mu Guodong will retire by rotation and, being eligible, offer themselves for re-election at the 2016 AGM.

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

DIRECTORS' BIOGRAPHIES

Biographical details of the directors of the Company are set out on pages 20 to 23 of the annual report.

DIRECTORS' SERVICE CONTRACTS

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

Save as disclosed above, no Director proposed for re-election at the 2016 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

No contracts concerning the management and administration of the whole or any substantial part of the business of the Company were entered into or subsisted during the year.

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in Note 41 to the consolidated financial statements, no transaction, arrangement and contract of significance to which the Company, or any of its holding company or subsidiaries was a party, and in which a Director had a material interest, whether directly or indirectly, subsisted at the end of the year or at any time during the year.

DIRECTORS' INTEREST IN COMPETING BUSINESS

As far as the Directors are aware of, none of the Directors has any interest in a business which competes or may compete with the business of the Group or has any other conflict of interest with the Group during the year.

PERMITTED INDEMNITY

Pursuant to the Bye-laws of the Company, every Director shall be indemnified and secured harmless out of the assets and profits of the Company from and against all actions, costs, charges, losses, damages and expenses which they or any of them may incur or sustain by or by reason of any act done, concurred in or omitted by or about the execution of their duty. Such permitted indemnity provision has been in force throughout the year. The Company has arranged appropriate Directors' and officers' liability insurance coverage for the Directors and officers of the Group.

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2015, the interests and short positions of the Directors and chief executives in the share capital of the Company and its associated corporations (within the meaning of Part XV of the Securities and Futures Ordinance (the "SFO")) as recorded in the register required to be kept by the Company under Section 352 of the SFO or as otherwise notified to the Company and the Stock Exchange pursuant to the Model Code for Securities Transactions by Directors of Listed Companies ("the Model Code") were as follows:

DIRECTORS' INTERESTS IN SHARE CAPITAL (Continued)

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

Name of Director	Nature of interest	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(Note)*	Long position	300,000	0.002%
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%

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

Save as disclosed above, as at 31 December 2015, none of the Directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

SHARE OPTION SCHEME

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

EQUITY-LINKED AGREEMENTS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 5% and matures on the third anniversary date from the date of issue. The convertible bonds entitle the holder to convert to the ordinary shares of the Company at an initial conversion price of HK$0.4 per share, subject to certain adjustments (but in no event shall the adjusted share price be lower than 90% of the conversion price other than subdivision of shares) as disclosed in Note 33 to the consolidated financial statements. The fund raised is intended to be used for the Group's general working capital and provide additional capital base for the future growth and development of the Group's business. As at the end of the financial year and at the date of this report, no notice has been received from the holder requesting conversion. If all of the convertible bonds outstanding as at the end of the year were converted into ordinary shares of the Company at the conversion price of HK$0.4, 897,062,500 ordinary shares of the Company would be issued.

Save for the convertible bonds and the Scheme as disclosed in the section headed "Share Option Scheme" above, the Company has not entered into any other equity-linked agreements for the year ended 31 December 2015.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2015, the interests of persons, other than a Director or chief executive of the Company, in the shares of the Company as recorded in the register maintained pursuant to Section 336 of the SFO were as follows:

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

Name	Capacity	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Yanchang Petroleum Group *(Note 1)*	Interest of controlled corporation	Long position	6,496,729,547	53.49%
Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") *(Note 1)*	Directly beneficially owned	Long position	6,496,729,547	53.49%
China Construction Bank Corporation ("CCBC") *(Note 2)*	Interest of controlled corporation	Long position	897,062,500	7.39%
Central Huijin Investment Ltd. ("Central Huijin") *(Note 2)*	Interest of controlled corporation	Long position	897,062,500	7.39%

Note 1: Yanchang Petroleum Group beneficially held these 6,496,729,547 Shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

Note 2: These 897,062,500 Shares represent a deemed interest held by CCBC and Central Huijin (the holding company of CCBC which holds approximately 57.31% shareholding interests in CCBC). Pursuant to a subscription agreement dated 3 December 2015 (the "Subscription Agreement") entered into between the Company and Giant Wave Investments Limited ("Giant Wave"), the Company has conditionally agreed to issue, and Giant Wave has conditionally agreed to subscribe for, the convertible bonds (the "Convertible Bonds") of an aggregate principal amount of US$46,800,000 (subject to the RMB Cap Amount as stipulated in the Subscription Agreement) at the conversion price of HK$0.40 per Share on completion.

With all the conditions precedent under the Subscription Agreement being fulfilled, completion of the subscription took place on 23 December 2015 and the aggregate principal amount of the Convertible Bonds was adjusted to US$46,300,000 (equivalent to HK$358,825,000), which enables Giant Wave to subscribe for a maximum of 897,062,500 Shares at the conversion price of HK$0.40 per Share upon full conversion of the Convertible Bonds within the 3-year exercise period.

CCBC and Central Huijin respectively holds 100% shareholding interests in Giant Wave through their respective various wholly-owned subsidiaries. Accordingly, both CCBC and Central Huijin were deemed, under the SFO, to have an interest in these 897,062,500 Shares.

Save as disclosed above, the Company had not been notified of any other interests or short positions in the shares and underlying shares of the Company representing 5% or more of the issued share capital of the Company as at 31 December 2015.

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) entered into a new supply agreement dated 24 December 2013 (the "New Supply Agreement"), pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil. Further details of the transactions are included in Note 41 to the consolidated financial statements.

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

(1) The aggregate value of the continuing connected transactions contemplated under the New Supply Agreement for the year ended 31 December 2015 as indicated above did not exceed the 2015 annual cap amount of RMB18,000,000,000 (equivalent to approximately HK$21,403,800,000); and

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

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

EVENTS AFTER THE REPORTING PERIOD

There were no significant events occured after the reporting period of the Group and up to the date of this report.

MODEL CODE FOR SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules as its own code regarding its Directors' securities transactions on the Company's shares.

Having made specific enquiry of all Directors, they confirmed that they have complied with the required standards as set out in the Model Code as their code of conduct regarding Directors' securities transactions with the Company throughout the year ended 31 December 2015.

REPORT OF THE DIRECTORS

CORPORATE GOVERNANCE

The Company is committed to maintaining a high standard of corporate governance practices. Information on the corporate governance practices adopted by the Company is set out in the "Corporate Governance Report" on pages 33 to 41.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2015 and up to the date of this annual report, the Board was unaware of any non-compliance with the relevant laws and regulations that have a significant impact on the Company.

SUFFICIENCY OF PUBLIC FLOAT

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

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 19 May 2016 to 23 May 2016 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the 2016 AGM of the Company to be held on 23 May 2016, all share transfers, accompanied by the relevant share certificates must be lodged with the Company's branch share registrar and transfer office in Hong Kong, Tricor Tengis Limited located at Level 22, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:00 p.m. on 18 May 2016.

AUDITORS

A resolution will be proposed at the 2016 AGM to re-appoint HLB Hodgson Impey Cheng Limited as auditors of the Company for the ensuing year.

On behalf of the Board

Mr. Li Yi
Chairman

Hong Kong, 30 March 2016

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2015, except for the following deviations:

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

2. code provision A.6.7 of the CG Code provides that independent non-executive directors and other non-executive directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Dr. Mu Guodong was unable to attend the AGM of the Company held on 27 May 2015 due to other ad hoc engagements.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code for Securities Transactions by Directors of Listed Issuers as set out in Appendix 10 to the Listing Rules (the "Model Code"). Having made specific enquiry of all Directors, the Directors confirmed that they had complied with the required standard set out in the Model Code throughout the year ended 31 December 2015.

BOARD OF DIRECTORS

Board Composition

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

(a) seven executive Directors, namely Mr. Li Yi (Chairman), Mr. Ren Yansheng (Chief Executive Officer), Mr. Hui Bo (Vice President), Mr. Shen Hao, Mr. Feng Dawei, Mr. Li Jun and Mr. Andres Pena Salceda; and

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

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

BOARD OF DIRECTORS (Continued)

Board Composition (Continued)

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

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

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

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

Corporate Governance Functions

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

Appointment and Re-election of Directors

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

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

BOARD OF DIRECTORS (Continued)

Board Diversity Policy

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

Board Meetings

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

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

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

Directors' Continuous Professional Development

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

From time to time, Directors are provided with written materials to develop and refresh their professional knowledge and skills; whereas the company secretary also arranges seminars on the latest updates and development of the applicable laws, rules and regulations for the Directors to assist them in discharging their duties and to enhance their awareness of good corporate governance practices. During the year, the Company has arranged a seminar for all Directors and company secretary of the Company presented by the Hong Kong practising lawyers on the topics of (i) Environmental, Social and Governance reporting for listed issuers; (ii) Risk Management and Internal Control System for listed issuers; (iii) The Codes on Takeovers and Mergers and Share Repurchases; and (iv) Capital Reorganization and Capital Reduction. A record of the training received by the respective Directors are kept and updated by the company secretary of the Company.

CORPORATE GOVERNANCE REPORT

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

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

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

NON-EXECUTIVE DIRECTORS

All the four independent non-executive Directors, Mr. Leung Ting Yuk, Mr. Ng Wing Ka, Mr. Sun Liming and Dr. Mu Guodong were appointed for a specific term of two years. They are also subject to retirement by rotation at least once every three years in accordance with the Bye-laws of the Company at the annual general meeting of the Company.

BOARD COMMITTEES

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

Audit Committee

The Audit Committee currently comprises the three independent non-executive Directors, namely Mr. Leung Ting Yuk, Mr. Ng Wing Ka and Mr. Sun Liming. Mr. Leung Ting Yuk is the chairman of the Audit Committee.

The Audit Committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the risk management, internal control systems and financial reporting matters. The Audit Committee has reviewed the results of the Group for the year ended 31 December 2015.

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

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year ended 31 December, 2015, the Audit Committee held two meetings. At the meetings, the committee reviewed the annual results for the year ended 31 December 2014 and the interim results for the period ended 30 June 2015 respectively with the external auditors; and reviewed and discussed the Group's financial reporting, risk management and internal control systems.

Remuneration Committee

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

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

During the year ended 31 December, 2015, the Remuneration Committee held one meeting. At the meeting, the committee reviewed and approved the existing remuneration package of all Directors and the salary revision proposal from management for the Chief Executive Officer and senior management.

Nomination Committee

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

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

During the year ended 31 December, 2015, the Nomination Committee held one meeting. At the meeting, the committee reviewed and assessed the independence of all the independent non-executive Directors, the composition and structure of the Board and the retirement and re-election of Directors at the 2015 annual general meeting of the Company.

BOARD COMMITTEES (Continued)

Details of the Directors' attendance (either in person or by phone) at the Board meetings, Audit Committee meetings, Remuneration Committee meetings and Nomination Committee meeting held during the year ended 31 December 2015 are set out in the table below:

	No. of meetings attended/entitled to attend			
Directors	**Board**	**Audit Committee**	**Remuneration Committee**	**Nomination Committee**
Executive Directors:				
Mr. Li Yi *(appointed on 12 January 2016)*	–	–	–	–
Mr. Ren Yansheng	5/5	–	–	–
Mr. Hui Bo	4/5	–	1/1	1/1
Mr. Shen Hao	1/5	–	–	–
Mr. Feng Dawei	3/5	–	–	–
Mr. Li Jun *(appointed on 12 January 2016)*	–	–	–	–
Mr. Andres Pena Salceda	2/5	–	–	–
Mr. Zhang Kaiyong *(resigned on 12 January 2016)*	5/5	–	–	–
Mr. Zhao Jie *(resigned on 12 January 2016)*	0/5	–	–	–
Independent Non-executive Directors:				
Mr. Ng Wing Ka	5/5	3/3	–	1/1
Mr. Leung Ting Yuk	5/5	3/3	1/1	–
Mr. Sun Liming	4/5	3/3	1/1	1/1
Dr. Mu Guodong	4/5	–	–	–

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK$2,112,000, of which HK$1,900,000 was incurred for audit service and HK$212,000 for non-audit services, including the taxation services and professional fees for circulars.

COMPANY SECRETARY

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

Mr. Law is also the Chief Financial Officer and the authorized representative of the Company. The biographical details of Mr. Law is set out in the section "Directors and Senior Management's Biographies" on page 23 of the annual report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended have been reviewed by the Audit Committee and audited by the external auditors, HLB Hodgson Impey Cheng Limited. The Directors acknowledge their responsibilities for preparing the financial statements of the Group which give a true and fair view. The Directors' responsibilities for the accounts are set out in the Independent Auditors' Report on pages 42 and 43.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS (Continued)

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

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

CONSTITUTIONAL DOCUMENTS

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

INTERNAL CONTROL

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

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

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

– Monitoring the strategic plan and performance.

– Designing an effective financial reporting and accounting and information systems.

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

CORPORATE GOVERNANCE REPORT

COMMUNICATION WITH SHAREHOLDERS

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

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

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

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

Shareholders' Communication Policy

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

INDEPENDENT AUDITORS' REPORT

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

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

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

We have audited the consolidated financial statements of Yanchang Petroleum International Limited (the "Company") and its subsidiaries (collectively referred to as the "Group") set out on pages 44 to 135, which comprise the consolidated statement of financial position as at 31 December 2015, and the consolidated statement of profit or loss and other comprehensive income, the consolidated statement of changes in equity and the consolidated statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

DIRECTORS' RESPONSIBILITY FOR THE CONSOLIDATED FINANCIAL STATEMENTS

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

AUDITORS' RESPONSIBILITY

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

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

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

INDEPENDENT AUDITORS' REPORT

OPINION

In our opinion, the consolidated financial statements give a true and fair view of the financial position of the Group as at 31 December 2015, and of its financial performance and cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practising Certificate Number: P06417

Hong Kong, 30 March 2016

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Revenue	8	**23,320,527**	22,346,997
Other revenue	8	**12,728**	20,429
		23,333,255	22,367,426
Expenses			
Purchases		**(22,803,665)**	(21,385,786)
Royalties		**(38,719)**	(88,022)
Field operation expenses		**(83,000)**	(111,985)
Exploration and evaluation expenses		**(2,968)**	(4,163)
Selling and distribution expenses		**(15,030)**	(48,839)
Administrative expenses		**(92,413)**	(127,069)
Depreciation, depletion and amortisation		**(245,818)**	(300,158)
Other gains and losses	9	**(4,660,561)**	(4,878,047)
		(27,942,174)	(26,944,069)
Loss from operating activities	10	**(4,608,919)**	(4,576,643)
Finance costs	13	**(33,812)**	(45,038)
Loss before taxation		**(4,642,731)**	(4,621,681)
Taxation	14	**116,622**	(36,744)
Loss for the year		**(4,526,109)**	(4,658,425)
Other comprehensive loss			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations		**(306,046)**	(142,179)
Other comprehensive loss for the year, net of tax		**(306,046)**	(142,179)
Total comprehensive loss for the year		**(4,832,155)**	(4,800,604)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(4,544,205)**	(4,634,817)
Non-controlling interests		**18,096**	(23,608)
		(4,526,109)	(4,658,425)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(4,843,969)**	(4,773,595)
Non-controlling interests		**11,814**	(27,009)
		(4,832,155)	(4,800,604)
Loss per share attributable to the owners of the Company	16		
Basic and diluted, HK cents		**(37.41)**	(39.08)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	**2015 HK$'000**	2014 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	**1,878,740**	2,927,654
Prepaid lease payments	*18*	**17,538**	19,935
Investment properties	*19*	**29,458**	29,663
Intangible assets	*20*	**47,848**	78,543
Exploration and evaluation assets	*21*	**46,258**	4,165,163
Goodwill	*23*	**51,418**	51,418
		2,071,260	7,272,376
Current assets			
Inventories	*25*	**29,347**	60,859
Trade receivables	*26*	**236,784**	209,399
Prepayments, deposits and other receivables	*27*	**115,412**	151,795
Derivative financial instruments	*28*	**–**	18,687
Tax recoverable		**5,681**	2,068
Cash and bank balances	*29*	**886,690**	575,602
		1,273,914	1,018,410
Total assets		**3,345,174**	8,290,786
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*30*	**242,911**	242,911
Reserves		**1,392,055**	6,236,050
Equity attributable to the owners of the Company		**1,634,966**	6,478,961
Non-controlling interests		**112,941**	106,949
Total equity		**1,747,907**	6,585,910

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*31*	**467,392**	474,057
Derivative financial instruments	*28*	**4,383**	–
Bank borrowings	*32*	**664,085**	928,118
		1,135,860	1,402,175
Non-current liabilities			
Convertible bonds	*33*	**353,792**	–
Decommissioning liabilities	*34*	**91,060**	111,227
Deferred tax liabilities	*35*	**16,555**	191,474
		461,407	302,701
Total liabilities		**1,597,267**	1,704,876
Total equity and liabilities		**3,345,174**	8,290,786
Net current assets/(liabilities)		**138,054**	(383,765)
Total assets less current liabilities		**2,209,314**	6,888,611

The consolidated financial statements were approved and authorised for issue by the board of Directors on 30 March 2016 and signed on its behalf by:

Mr. Li Yi
Chairman

Mr. Ren Yansheng
Chief Executive Officer

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

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

	Attributable to the owners of the Company												
		Reserves											
	Share capital HK$'000	Share premium HK$'000 *(Note i)*	Contributed surplus HK$'000 *(Note ii)*	Exchange reserve HK$'000	Revaluation reserve HK$'000 *(Note iii)*	Reserve on acquisition of additional interests in a subsidiary HK$'000	Statutory reserve HK$'000 *(Note iv)*	Convertible bonds reserve HK$'000	Other reserve HK$'000 *(Note v)*	Retained profits/ (accumulated losses) HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 1 January 2014	162,911	6,639,269	3,156	17,200	385,259	2,285,265	8,526	–	1,541	143,549	9,483,765	139,674	9,786,350
Loss for the year	–	–	–	–	–	–	–	–	–	(4,634,817)	(4,634,817)	(23,608)	(4,658,425)
Other comprehensive loss for the year	–	–	–	(138,778)	–	–	–	–	–	–	(138,778)	(3,401)	(142,179)
Total comprehensive loss for the year	–	–	–	(138,778)	–	–	–	–	–	(4,634,817)	(4,773,595)	(27,009)	(4,800,604)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(6,280)	(6,280)
Issuance of convertible bonds	–	–	–	–	–	–	–	383,041	–	–	383,041	–	383,041
Deferred tax of convertible bonds	–	–	–	–	–	–	–	(63,202)	–	–	(63,202)	–	(63,202)
Issuance of ordinary shares upon conversion of convertible bonds	80,000	1,524,564	–	–	–	–	–	(319,839)	–	–	1,204,725	–	1,284,725
Net increase in other reserve	–	–	–	–	–	–	–	–	1,316	–	1,316	564	1,880
Transfer of reserve	–	–	–	–	–	–	7,646	–	–	(7,646)	–	–	–
At 31 December 2014 and 1 January 2015	242,911	8,163,833	3,156	(121,578)	385,259	2,285,265	16,172	–	2,857	(4,498,914)	6,236,050	106,949	6,585,910
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	(4,544,205)	(4,544,205)	18,096	(4,526,109)
Other comprehensive loss for the year	–	–	–	(299,764)	–	–	–	–	–	–	(299,764)	(6,282)	(306,046)
Total comprehensive (loss)/income for the year	–	–	–	(299,764)	–	–	–	–	–	(4,544,205)	(4,843,969)	11,814	(4,832,155)
Dividend paid to non-controlling interests of a subsidiary	–	–	–	–	–	–	–	–	–	–	–	(5,810)	(5,810)
Reduction of share premium and transfer between share premium and contributed surplus *(Note (i))*	–	(6,400,773)	6,400,773	–	–	–	–	–	–	–	–	–	–
Net decrease in other reserve	–	–	–	–	–	–	–	–	(26)	–	(26)	(12)	(38)
Transfer of reserve	–	–	–	–	–	–	5,727	–	–	(5,727)	–	–	–
At 31 December 2015	**242,911**	**1,763,060**	**6,403,929**	**(421,342)**	**385,259**	**2,285,265**	**21,899**	**–**	**2,831**	**(9,048,846)**	**1,392,055**	**112,941**	**1,747,907**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2015

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$ nil (2014: HK$6,400,773,000); and (ii) special reserve of HK$1,763,060,000 (2014: HK$1,763,060,000). The special reserve represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries or additional interests on available-for-sale investment in prior years.

At the annual general meeting of the Company held on 27 May 2015, resolution was passed by the shareholders to reduce the credit standing of the share premium account of the Company by an amount of HK$6,400,773,000 (the "Share Premium Reduction") and the entire amount of the Share Premium Reduction was transferred and credited to the contributed surplus account of the Company.

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

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

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

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

(v) According to relevant PRC regulations, the Group is required to transfer certain amount to other reserve for the safety production fund based on the turnover of trading and distribution of oil related products. The fund can be used on any safety production areas.

During the year ended 31 December 2015, the Group made appropriation of other reserve of approximately HK$2,778,000 (2014: HK$3,329,000) and utilisation of other reserve of approximately HK$2,816,000 (2014: HK$1,449,000), resulting in a net decrease in other reserve of approximately HK$38,000 (2014: net increase in other reserve of approximately HK$1,880,000).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Loss before taxation		(4,642,731)	(4,621,681)
Adjustments for:			
Interest income		(10,847)	(11,373)
Depreciation and depletion of property, plant and equipment	17	245,324	299,634
Amortisation of prepaid lease payments	18	494	524
Change in fair value on derivative components of convertible bonds	33	(1,047)	–
Fair value change on investment properties	19	(1,011)	(1,099)
Gain on disposal of property, plant and equipment and exploration and evaluation assets		(1,642)	(2,144)
Written off of expired exploration and evaluation assets		8,615	2,371
Impairment loss of property, plant and equipment	17	493,975	–
Impairment loss of prepaid lease payments	18	828	–
Impairment loss of intangible assets	20	26,465	207,924
Impairment loss of exploration and evaluation assets	21	4,138,179	4,517,062
Impairment loss of available-for-sale investment	22	–	196,072
Net (decrease)/increase in other reserve		(38)	1,880
Net exchange loss/(gain)		6,647	(15,156)
Fair value loss/(gain) on derivative financial instruments		15,898	(28,265)
Gain on bargain purchase	37	–	(1,420)
Finance costs	13	33,812	45,038
Operating cash flows before movements in working capital		312,921	589,367
Increase in trade receivables		(45,675)	(103,155)
Decrease/(increase) in inventories		28,320	(33,570)
Decrease/(increase) in prepayments, deposits and other receivables		3,339	(15,841)
Increase in trade and other payables		95,846	121,894
Decrease in decommissioning liabilities		(2,830)	(5,168)
Cash generated from operations		391,921	553,527
Interest received		10,847	11,373
Tax paid		(36,411)	(49,083)
Net cash generated from operating activities		366,357	515,817
Cash flows from investing activities			
Net cash outflow on acquisition of a subsidiary	37	–	(1,643,492)
Purchases of exploration and evaluation assets		(5,986)	(35,974)
Purchases of property, plant and equipment		(210,509)	(650,127)
Proceeds from disposal of property, plant and equipment		–	2,126
Net cash used in investing activities		(216,495)	(2,327,467)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2015

	Notes	2015 HK$'000	2014 HK$'000
Cash flows from financing activities			
Proceeds from borrowings		**490,044**	1,191,665
Interest paid		**(30,172)**	(36,367)
Repayment of bank borrowings		**(624,295)**	(1,180,734)
Proceeds from issue of convertible bonds		**358,825**	1,600,000
Dividend paid to a non-controlling shareholder		**(2,905)**	(3,140)
Net cash generated from financing activities		**191,497**	1,571,424
Net increase/(decrease) in cash and cash equivalents		**341,359**	(240,226)
Cash and cash equivalents at the beginning of the year		**575,602**	848,460
Effect of exchange rate changes		**(30,271)**	(32,632)
Cash and cash equivalents at the end of the year		**886,690**	575,602
Analysis of balances of cash and cash equivalents			
Cash and bank balances		**886,690**	575,602

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

1. CORPORATE INFORMATION

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

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

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

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

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

In the current year, the Group has applied, for the first time, a number of new and revised standards, amendments and interpretations (the "new and revised HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants (the "HKICPA") which are effective for the Group's financial period beginning 1 January 2015. A summary of the new and revised HKFRSs are set out as below:

Amendments to HKAS 19	Defined Benefit Plans: Employee Contributions
Amendments to HKFRSs	Annual Improvements to HKFRSs 2010–2012 Cycle
Amendments to HKFRSs	Annual Improvements to HKFRSs 2011–2013 Cycle

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

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

New and revised HKFRSs in issue but not yet effective

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

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

1 Effective for first annual HKFRS financial statements beginning on or after 1 January 2016, with earlier application permitted.

2 Effective for annual periods beginning on or after 1 January 2016, with earlier application permitted.

3 Effective for annual periods beginning on or after 1 January 2018, with earlier application permitted.

4 Effective for annual periods beginning on or after a date to be determined.

HKFRS 9 — Financial Instruments

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

Key requirements of HKFRS 9:

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

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

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 9 — Financial Instruments (Continued)

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

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

- The new general hedge accounting requirements retain the three types of hedge accounting mechanisms currently available in HKAS 39. Under HKFRS 9, greater flexibility has been introduced to the types of transactions eligible for hedge accounting, specifically broadening the types of instruments that qualify for hedging instruments and the types of risk components of non-financial items that are eligible for hedge accounting. In addition, the retrospective quantitative effectiveness test has been removed. Enhanced disclosure requirements about an entity's risk management activities have also been introduced.

The Directors of the Company anticipate that the application of HKFRS 9 in the future may have a material impact on the amounts reported and disclosures made in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 9 until the Group performs a detailed review.

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

New and revised HKFRSs in issue but not yet effective (Continued)

HKFRS 15 — Revenue from Contracts with Customers

In July 2015, HKFRS 15 was issued which establishes a single comprehensive model for entities to use in accounting for revenue arising from contracts with customers. HKFRS 15 will supersede the current revenue recognition guidance including HKAS 18 *Revenue*, HKAS 11 *Construction Contracts* and the related interpretations when it becomes effective.

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

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

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

The Directors of the Company anticipate that the application of HKFRS 15 in the future may have a material impact on the amounts reported and disclosures made in the consolidated financial statements. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Group performs a detailed review.

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

New and revised HKFRSs in issue but not yet effective (Continued)

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

The amendments to HKFRS 11 provide guidance on how to account for the acquisition of a joint operation that constitutes a business as defined in HKFRS 3 Business Combinations. Specifically, the amendments state that the relevant principles on accounting for business combinations in HKFRS 3 and other standards (e.g. HKAS 12 *Income Taxes* regarding the recognition of deferred taxes as the time of acquisition and HKAS 36 *Impairment of Assets* regarding impairment testing of a cash-generating unit to which goodwill on acquisition of a joint operation has been allocated) should be applied. The same requirements should be applied to the formation of a joint operation if and only if an existing business is contributed to the joint operation by one of the parties that participate in the joint operation.

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

The amendments should be applied prospectively to acquisitions of interests in joint operations (in which the activities of the joint operations constitute business as defined in HKFRS 3) occurring from the beginning of annual periods beginning on or after 1 January 2016. The Directors of the Company do not anticipate that the application of these amendments to HKFRS 11 will have a material impact on the Group's consolidated financial statements.

Amendments to HKAS 1 — Disclosure Initiative

The amendments to HKAS 1 give some guidance on how to apply the concept of materiality in practice.

The amendments to HKAS 1 are effective for annual periods beginning on or after 1 January 2016, The Directors of the Company do not anticipate that the application of these amendments to HKAS 1 will have a material impact on the amounts recognised in the Group's consolidated financial statements.

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

New and revised HKFRSs in issue but not yet effective (Continued)

Amendments to HKAS 27 — Equity Method in Separate Financial Statements

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

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

The accounting option must be applied by category of investments.

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

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

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

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

New and revised HKFRSs in issue but not yet effective (Continued)

Annual Improvements to HKFRS 2012–2014 Cycle

The Annual Improvements to HKFRSs 2012–2014 Cycle include a number of amendments to various HKFRSs, which are summarised below.

The amendments to HKFRS 5 introduce specific guidance in HKFRS 5 for when an entity reclassifies an asset (or a disposal group) from held for sale to held for distribution to owners (or vice versa). The amendments clarify that such a change should be considered as a continuation of the original plan of disposal and hence requirements set out in HKFRS 5 regarding the change of sale plan do not apply. The amendments also clarify the guidance for when held-for-distribution accounting is discontinued.

The amendment to HKFRS 7 provides additional guidance to clarify whether a servicing contract is continuing involvement in a transferred asset for the purpose of the disclosures required in relation to transferred assets.

The amendments to HKAS 19 clarify that the rate used to discount post-employment benefit obligations should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. The assessment of the depth of a market for high quality corporate bonds should be at the currency level (i.e. the same currency as the benefits are to be paid). For currencies for which there is no deep market in such high quality corporate bonds, the market yields at the end of the reporting period on government bonds denominated in that currency should be used instead.

The Directors of the Company do not anticipate that the application of other new and revised HKFRSs will have a material effect on the Group's consolidated financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

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

New Hong Kong Companies Ordinance (Cap. 622)

The requirements of Part 9 "Accounts and Audit" of the new Hong Kong Companies Ordinance (Cap. 622) came into operation during the financial year. As a result, there are changes to presentation and disclosures of certain information in the consolidated financial statements.

In addition, the Company has adopted the amendments to the Listing Rules issued by the Stock Exchange relating to the disclosure of financial information with reference to the new Hong Kong Companies Ordinance (Cap. 622) and to streamline with HKFRSs. The main impact relates to the presentation and disclosure of certain information in the consolidated financial statements.

Comparative information in respect of the financial year ended 31 December 2014 are presented or disclosed in the consolidated financial statements based on the new requirements. Information previously required to be disclosed under the predecessor Companies Ordinance or Listing Rules but not under the new Hong Kong Companies Ordinance (Cap. 622) or amended Listing Rules are not disclosed in these consolidated financial statements.

(b) Basis of preparation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation (Continued)

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

- Level 1 inputs are quoted prices (unadjusted) in active markets for identical assets or liabilities that the entity can access at the measurement date;
- Level 2 inputs are inputs, other than quoted prices included within Level 1, that are observable for the asset or liability, either directly or indirectly; and
- Level 3 inputs are unobservable inputs for the asset or liability.

(c) Basis of consolidation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

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

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

(d) Business combination

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Business combination (Continued)

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Goodwill

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

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

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

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Revenue recognition

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

Sale of goods

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

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

Interest income

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

Rental income

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Property, plant and equipment

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

Except for petroleum and natural gas properties, depreciation is provided on the straight line method so as to write down the cost of property, plant and equipment to their realisable value over their anticipated useful lives at the following annual rates:

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Investment properties

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

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

(j) Exploration and evaluation assets

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

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

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

(k) Inventories

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leasing

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

The Group as lessor

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

The Group as lessee

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

Leasehold land

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Foreign currencies translation

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Retirement benefits schemes

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

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

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

(o) Share option expenses

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Taxation

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

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

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

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

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Taxation (Continued)

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

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

(q) Intangible assets

Intangible assets acquired in a business combination

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments

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

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

Financial assets

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

AFS financial assets

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

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

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

Loans and receivables

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Financial assets (Continued)

Effective interest method

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

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

Impairment of financial assets

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

Objective evidence of impairment could include:

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

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

For financial assets carried at amortised cost, an amount of the impairment loss recognised the difference between the asset's carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Impairment of financial assets (Continued)

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

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

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

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

Financial liabilities and equity instruments

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

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

Other financial liabilities

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

Equity instruments

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Effective interest method

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

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

Convertible bonds

(i) Convertible bonds that contain an equity component

Convertible bonds that can be converted to equity share capital at the option of the holder, where the number of shares that would be issued on conversion and the value of the consideration that would be received at that time do not vary, are accounted for as compound financial instruments which contain both a liability component and an equity component.

At initial recognition the liability component of the convertible bonds is measured as the present value of the future interest and principal payments, discounted at the market rate of interest applicable at the time of initial recognition to similar liabilities that do not have a conversion option. Any excess of proceeds over the amount initially recognised as the liability component is recognised as the equity component. Transaction costs that relate to the issue of a compound financial instrument are allocated to the liability and equity components in proportion to the allocation of proceeds.

The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method. The equity component is recognised in the capital reserve until either the bond is converted or redeemed.

If the bond is converted, the capital reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the bond is redeemed, the capital reserve is released directly to retained profits.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Financial liabilities and equity instruments (Continued)

Convertible bonds (Continued)

(ii) Other convertible bonds

Convertible bonds which do not contain an equity component are accounted for as follows: At initial recognition the derivative component of the convertible bonds is measured at fair value and presented as part of derivative financial instruments. Any excess of proceeds over the amount initially recognised as the derivative component is recognised as the liability component. Transaction costs that relate to the issue of the convertible bonds are allocated to the liability and derivative components in proportion to the allocation of proceeds. The portion of the transaction costs relating to the liability component is recognised initially as part of the liability. The portion relating to the derivative component is recognised immediately in profit or loss.

The derivative component is subsequently remeasured as stated below. The liability component is subsequently carried at amortised cost. The interest expense recognised in profit or loss on the liability component is calculated using the effective interest method.

Derivative financial instruments

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

Derecognition

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Derecognition (Continued)

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

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

Offsetting of financial instruments

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

(s) Joint operation

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) Joint operation (Continued)

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

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

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

(t) Provisions

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

Decommissioning liabilities

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) Cash and cash equivalents

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

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

(v) Borrowing costs

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

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

(w) Related party

A related party is a person or entity that is related to the entity that is preparing the financial statements:

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

- (i) has control or joint control of the Group;
- (ii) has significant influence over the Group; or
- (iii) is a member of the key management personnel of the Group or of a parent of the Group;

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) Related party (Continued)

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

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

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

(iii) Both entities are joint ventures of the same third party.

(iv) One entity is a joint venture of a third entity and the other entity is an associate of the third entity.

(v) The entity is a post-employment benefit plan for the benefit of employees of either the Group or an entity related to the Group. If the Group is itself such a plan, the sponsoring employers are also related to the Group.

(vi) The entity is controlled or jointly controlled by a person identified in (a).

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

(viii) The entity, or any member of a group of which it is a part, provides key management personnel services to the Group or the Group's parent.

A related party transaction is a transfer of resources, services or obligations between a reporting entity and a related party, regardless of whether a price is charged.

Close members of the family of a person are those family members who may be expected to influence, or be influenced by, that person in their dealings with the entity and include:

(a) that person's children and spouse or domestic partner;

(b) children of that person's spouse or domestic partner; and

(c) dependants of that person or that person's spouse or domestic partner.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(x) Contingent liabilities and contingent assets

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

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

(y) Segment reporting

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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

(a) Income taxes

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

(b) Impairment of exploration and evaluation assets

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

As at 31 December 2015, the recoverable amount of exploration and evaluation assets have been determined based on the technical feasibility or commercial viability of the exploration and evaluation assets prepared by a competent person in accordance with the current requirements of the Chapter 18 of the Listing Rules on the Stock Exchange. As at 31 December 2014, the recoverable amount of exploration and evaluation assets has been determined based on market approach, comparable transactions (Note 21).

(c) Fair value of investment properties

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

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

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

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

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

(c) Fair value of investment properties (Continued)

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

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

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

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

(e) Impairment of intangible assets

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

The carrying amounts of intangible assets at the end of the year were approximately HK$47,848,000 (2014: HK$78,543,000) and impairment loss of approximately HK$26,465,000 was recognised for the year (2014: HK$207,924,000). Details of the impairment loss calculation are provided in Note 20 to the consolidated financial statements.

(f) Impairment of inventories

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

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

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

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

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

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

(h) Decommissioning liabilities

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

(i) Fair value measurement of derivative financial instruments

The amounts recorded for the fair value of oil commodity contracts are based on estimates of future commodity prices and the volatility in those prices.

The derivative components of convertible bonds have been valued based on valuation technique. The valuation required the Group to make estimates about expected share price volatility and discount rate, and hence they are subjected to uncertainty.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

	2015 HK$'000	2014 HK$'000
Financial assets		
Loan and receivables (including cash and bank balances)		
— Trade receivables *(Note 26)*	236,784	209,399
— Other receivables *(Note 27)*	13,346	16,295
— Cash and bank balances *(Note 29)*	886,690	575,602
	1,136,820	801,296
At fair value through profit or loss		
— Derivative financial instruments *(Note 28)*	–	18,687
	1,136,820	819,983
Financial liabilities		
Amortised costs		
— Trade and other payables *(Note 31)*	357,293	394,351
— Bank borrowings *(Note 32)*	664,085	928,118
— Convertible bonds *(Note 33)*	353,792	–
— Decommissioning liabilities *(Note 34)*	91,060	111,227
	1,466,230	1,433,696
At fair value through profit or loss		
— Derivative financial instruments *(Note 28)*	4,383	–
	1,470,613	1,433,696

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk management objectives and policies

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

Market risk

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

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

(i) Foreign exchange risk

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

(ii) Interest rate risk

The Group is also exposed to market interest rate risk mainly in relation to floating rate bank borrowings (Note 32). The Group has obtained bank facilities and borrowings with rather stable interest rates, though on floating basis. The Group's cash flow interest rate risk is mainly concentrated on the fluctuation of benchmark interest rate published by the People's Bank of China for the Group's RMB denominated borrowings and by the National Bank of Canada for the Group's CAD denominated borrowings.

Sensitivity analysis

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

If interest rates had been 100 basis points higher/lower and all other variables were held constant, the Group's pre-tax loss for the year would increase/decrease by approximately HK$6,641,000 (2014: pre-tax loss would increase/decrease by approximately HK$8,557,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Market risk (Continued)

(iii) Commodity price risk

This is the risk that the fair value or future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for petroleum and natural gas are not only impacted by changes in the exchange rate between the CAD and US dollars, but also by world economic events that dictate the levels of supply and demand.

Sensitivity analysis

For the year ended 31 December 2015, a CAD5/bbl (approximately HK$28/bbl) increase/(decrease) in the referenced crude oil prices would have no material effect on net loss on the Company's commodity contracts outstanding on 31 December 2015. The management believes a CAD5/bbl price fluctuation, with all other variables held constant, is a reasonable measure of volatility.

For the year ended 31 December 2014, a CAD5/bbl (approximately HK$34/bbl) increase/(decrease) in the referenced crude oil prices would (decrease)/increase the Group's net loss by approximately HK$2,275,000.

Credit risk

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

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

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

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

Liquidity risk

The Group manages its liquidity risk by regularly monitoring current and expected liquidity requirements and ensuring sufficient liquid cash and intended lines of funding from major financial institutions to meet the Group's liquidity requirements in the short and long term.

The following table detail the Group's remaining contractual maturity for its financial liabilities. The table has been drawn up based on the undiscounted cash flows of financial liabilities based on the earliest date on which the Group can be required to pay.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Liquidity risk (Continued)

The Group

	Weighted average interest rate %	On demand or less than 1 year HK$'000	1–5 years HK$'000	Over 5 years HK$'000	Total undiscounted cash flows HK$'000	Total carrying amount HK$'000
31 December 2015						
Non-derivative financial liabilities						
Trade and other payables	–	357,293	–	–	357,293	357,293
Bank borrowings	5.52	666,527	–	–	666,527	664,085
Decommissioning liabilities	3.25	143,406	–	–	143,406	91,060
Convertible bonds	5.00	–	358,825	–	358,825	353,792
		1,167,226	358,825	–	1,526,051	1,466,230
31 December 2014						
Non-derivative financial liabilities						
Trade and other payables	–	394,351	–	–	394,351	394,351
Bank borrowings	4.03	937,530	–	–	937,530	928,118
Decommissioning liabilities	3.25	174,175	–	–	174,175	111,227
		1,506,056	–	–	1,506,056	1,433,696

(c) Fair value estimation

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

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

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

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

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

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

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

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Fair value estimation (Continued)

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

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

Financial (liabilities)/assets	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
	2015 HK$'000	2014 HK$'000			
Derivative financial instruments					
— Oil commodity contracts	(35)	18,687	Level 2	Discounting the difference between the contracted prices and the published forward price curves, using the remaining contracted volumes and a risk-free rate adjusted for non-performance risk	N/A
— Derivative components of convertible bonds	(4,348)	–	Level 3	Generating a large number of possible random price paths using Monte Carlo simulation to calculate the average present value of the extra payoff from the simulated paths	Discount rate adopted ranging from 9.76% to 9.79%. Share price volatility of 37% *(Note)*

Note:

An increase in the discount rate adopted in isolation would result in a decrease in fair value measurement of derivative components of convertible bonds.

An increase in the share price volatility used in isolation would result in an increase in the fair value measurement of derivative components of convertible bonds.

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Fair value estimation (Continued)

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

Except as detailed in the following table, the Directors of the Company consider the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position approximate to their fair values:

	2015		2014	
	Carrying amount HK$'000	Fair value HK$'000	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Convertible bonds	353,792	354,493	–	–

6. CAPITAL RISK MANAGEMENT

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

The capital structure of the Group consists of debts which include total liabilities (which includes trade and other payables, decommissioning liabilities, convertible bonds, derivative financial instruments and bank borrowings) and total equity.

Consistent with others in the industry, the Group monitors capital on the basis of the gearing ratio. The gearing ratio is calculated as total liabilities divided by total equity. For the years ended 31 December 2015 and 2014, the Group's strategy was to maintain a gearing ratio less than 1. The gearing ratio at 31 December 2015 and 2014 were as follows:

	2015 HK$'000	2014 HK$'000
Total liabilities	1,597,267	1,704,876
Total equity	1,747,907	6,585,910
Gearing ratio	91.4%	25.9%

7. SEGMENT INFORMATION

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

7. SEGMENT INFORMATION (Continued)

Segment revenue and results

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Segment revenue:						
Sales to external customers	371,386	816,425	22,949,141	21,530,572	23,320,527	22,346,997
Segment results	(40,962)	247,797	108,145	108,225	67,183	356,022
Other revenue					12,728	20,429
Fair value change on investment properties					1,011	1,099
Change in fair value on derivative components of convertible bonds					1,047	–
Gain on bargain purchase					–	1,420
Net foreign exchange (loss)/gain					(6,647)	15,156
Impairment loss of available-for-sale investment					–	(196,072)
Impairment loss of exploration and evaluation assets					(4,138,179)	(4,517,062)
Impairment loss of intangible assets					(26,465)	(207,924)
Impairment loss of prepaid lease payments					(828)	–
Impairment loss of property, plant and equipment					(493,975)	–
Unallocated corporate expenses					(24,794)	(49,711)
Loss from operating activities					(4,608,919)	(4,576,643)
Finance costs					(33,812)	(45,038)
Loss before taxation					(4,642,731)	(4,621,681)
Taxation					116,622	(36,744)
Loss for the year					(4,526,109)	(4,658,425)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2014: Nil).

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

7. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Segment assets	1,767,708	7,066,731	1,001,359	977,511	2,769,067	8,044,242
Unallocated assets					576,107	246,544
Total assets					3,345,174	8,290,786
Segment liabilities	688,116	1,145,539	546,939	555,889	1,235,055	1,701,428
Unallocated liabilities					362,212	3,448
Total liabilities					1,597,267	1,704,876

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

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

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Other segment information:								
Depreciation of property, plant and equipment	1,405	1,301	5,675	5,422	144	105	7,224	6,828
Depletion of property, plant and equipment	238,100	292,806	–	–	–	–	238,100	292,806
Written off of expired exploration and evaluation assets	8,615	2,371	–	–	–	–	8,615	2,371
Amortisation of prepaid lease payments	15	19	479	505	–	–	494	524
Impairment loss of available-for-sale investment	–	196,072	–	–	–	–	–	196,072
Impairment loss of exploration and evaluation assets	4,138,179	4,517,602	–	–	–	–	4,138,179	4,517,602
Impairment loss of intangible assets	–	–	26,465	207,924	–	–	26,465	207,924
Impairment loss of prepaid lease payments	828	–	–	–	–	–	828	–
Impairment loss of property, plant and equipment	493,975	–	–	–	–	–	493,975	–
Additions to non-current assets*	137,664	703,459	38,978	71,300	21	168	176,663	774,927

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2015 and 2014.

7. SEGMENT INFORMATION (Continued)

Revenue from major products and services

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

Geographical information

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

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

	Revenue from external customers		Non-current assets	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Canada	371,386	816,425	1,673,468	2,760,396
The PRC	22,949,141	21,530,572	388,314	402,231
Madagascar	–	–	9,363	4,109,510
Hong Kong	–	–	115	239
	23,320,527	22,346,997	2,071,260	7,272,376

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$22,949,141,000 (2014: HK$21,530,572,000) are revenue of HK$14,886,296,000 (2014: HK$15,725,800,000) which arose from two (2014: two) customers of the Group which contributed 10% or more to the Group's total revenue for the year.

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

	2015 HK$'000	2014 HK$'000
Customer A	8,757,103	9,993,683
Customer B	6,129,193	5,732,117

8. REVENUE AND OTHER REVENUE

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

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

	2015 HK$'000	2014 HK$'000
Revenue		
Sales of crude oil and gas	371,386	816,425
Trading and distribution of oil related products	22,949,141	21,530,572
	23,320,527	22,346,997
Other revenue		
Bank interest income	10,847	11,373
Rental income	1,828	3,922
Others	53	5,134
	12,728	20,429

9. OTHER GAINS AND LOSSES

	2015 HK$'000	2014 HK$'000
Net foreign exchange (loss)/gain	(6,647)	15,156
Fair value change on investment properties *(Note 19)*	1,011	1,099
Change in fair value on derivative components of convertible bonds *(Note 33)*	1,047	–
Gain on bargain purchase *(Note 37)*	–	1,420
Gain on disposal of property, plant and equipment and exploration and evaluation assets	1,642	2,144
Written off of expired exploration and evaluation assets	(8,615)	(2,371)
Impairment loss of available-for-sale investment	–	(196,072)
Impairment loss of exploration and evaluation assets *(Note 21)*	(4,138,179)	(4,517,062)
Impairment loss of intangible assets *(Note 20)*	(26,465)	(207,924)
Impairment loss of prepaid lease payments *(Note 18)*	(828)	–
Impairment loss of property, plant and equipment *(Note 17)*	(493,975)	–
Change in fair value of derivative financial instruments	10,448	25,563
	(4,660,561)	(4,878,047)

10. LOSS FROM OPERATING ACTIVITIES

The Group's loss from operating activities is arrived at after charging:

	2015 HK$'000	2014 HK$'000
Auditors' remuneration		
— Audit services	**1,900**	1,900
— Non-audit services	**212**	211
Cost of inventories sold	**22,803,665**	21,385,786
Depreciation and depletion of property, plant and equipment *(Note 17)*	**245,324**	299,634
Amortisation of prepaid lease payments *(Note 18)*	**494**	524
Minimum lease payments under operating leases of rented premises	**8,561**	12,764
Staff costs (including Directors' remuneration)		
— Salaries and wages	**57,240**	42,231
— Pension scheme contributions	**493**	406

11. DIRECTORS' REMUNERATION

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

Name of Directors

	Fees		Salaries, other benefits and bonuses		Pension scheme contributions		Total	
	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Executive Directors								
Mr. Zhang Kaiyong *(Chairman)*	–	–	250	250	–	–	250	250
Mr. Ren Yansheng *(Chief Executive Officer)*	–	–	2,789	3,383	–	–	2,789	3,383
Mr. Hui Bo *(Vice President)*	–	–	250	450	–	–	250	450
Mr. Shen Hao	–	–	250	250	–	–	250	250
Mr. Feng Dawei	–	–	250	250	–	–	250	250
Mr. Zhao Jie (appointed on 22 August 2014)	–	–	250	90	–	–	250	90
Mr. Andres Pena Salceda (appointed on 22 August 2014)	–	–	250	90	12	5	262	95
Mr. Yang Jie (resigned on 22 August 2014)	–	–	–	161	–	–	–	161
Mr. To Kwan (resigned on 22 August 2014)	–	–	–	161	–	8	–	169
Independent non-executive Directors								
Mr. Ng Wing Ka	128	128	–	–	–	–	128	128
Mr. Leung Ting Yuk	128	128	–	–	–	–	128	128
Mr. Sun Liming	128	128	–	–	–	–	128	128
Dr. Mu Guodong	128	128	–	–	–	–	128	128
	512	512	4,289	5,085	12	13	4,813	5,610

11. DIRECTORS' REMUNERATION (Continued)

The remuneration of the Directors fell with the following bands:

	Number of Directors	
	2015	2014
HK$		
Nil–1,000,000	10	12
2,500,001–3,000,000	1	–
3,000,001–3,500,000	–	1
	11	13

Included in the Directors' remuneration were fees of HK$512,000 (2014: HK$512,000) paid to independent non-executive Directors. No fees were paid to executive Directors and non-executive Directors for the year (2014: Nil).

No Directors waived or agreed to waive any remuneration during the year (2014: Nil). In addition, no emoluments were paid by the Group to the Directors as an inducement to join, or upon joining the Group, or as compensation for loss of office (2014: Nil).

During the year, no share options were granted to the Directors to subscribe for ordinary shares of the Company under the Company's share option scheme (2014: Nil).

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

(a) Senior management of the Group

Senior management of the Group represents the executive Directors of the Company during the years ended 31 December 2015 and 2014.

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

(b) Five highest paid individuals

The five individuals with the highest emoluments, one (2014: one) is a Director whose emoluments are disclosed in Note 11.

The aggregate of the emoluments in respect of the remaining four (2014: four) who are neither a Director nor senior management of the Group are as follows:

	2015 HK$'000	2014 HK$'000
Basic salaries and bonuses	4,950	7,945
Pension scheme contributions	18	–
	4,968	7,945

The emoluments of the remaining four (2014: four) individuals, none of them are Directors nor senior management of the Group, with the highest emoluments are within the following bands:

	Number of individuals	
	2015	2014
HK$		
1,000,001–1,500,000	3	–
1,500,001–2,000,000	1	3
2,000,001–2,500,000	–	1
	4	4

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2014: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2014: Nil).

During the year, no share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme (2014: Nil).

13. FINANCE COSTS

	2015 HK$'000	2014 HK$'000
Interest expenses on bank borrowings wholly repayable within five years	**30,172**	36,367
Imputed interest on convertible bonds *(Note 33)*	**754**	5,466
Accretion of decommissioning liabilities *(Note 34)*	**2,886**	3,205
	33,812	45,038

14. TAXATION

(a) No provision for Hong Kong profits tax has been made as the Group did not have any assessable profits in Hong Kong for the year (2014: Nil).

Under the Law of the PRC on Enterprise Income Tax (the "EIT Law") and Implementation Regulation of the EIT Law, the tax rate of the PRC subsidiaries is 25% for both years.

Taxation arising in Canada is calculated at 27% for the year ended 31 December 2015 (2014: 25.95%).

	2015 HK$'000	2014 HK$'000
Current taxation		
Charge for the year — the PRC	**26,699**	25,837
— Canada	**5,906**	13,075
Deferred taxation		
Credit for the year *(Note 35)*	**(149,227)**	(2,168)
Net tax (credited)/charged for the year	**(116,622)**	36,744

14. TAXATION (Continued)

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

For the year ended 31 December 2015

	Hong Kong		The PRC		Canada		Madagascar		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
(Loss)/profit before taxation	(39,689)		95,416		(558,206)		(4,140,252)		(4,642,731)	
Tax at applicable income tax rate	(6,549)	(16.5)	23,854	25.0	(150,716)	(27.0)	(828,050)	(20.0)	(961,461)	(20.7)
Tax effect of expenses and income not deductible or taxable	6,549	16.5	2,845	3.0	151,141	27.1	828,050	20.0	988,585	21.3
Tax effect of temporary difference	–	–	(5,379)	(5.6)	(143,992)	(25.8)	144	–	(149,227)	(3.2)
Effect on deferred tax resulting from change in tax rate	–	–	–	–	5,481	1.0	–	–	5,481	0.1
Tax charge/(credit) for the year	–	–	21,320	22.3	(138,086)	(24.7)	144	–	(116,622)	(2.5)

For the year ended 31 December 2014

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

15. DIVIDENDS

The Directors do not recommend payment of any dividends for the year (2014: Nil).

16. LOSS PER SHARE

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

	2015 HK$'000	2014 HK$'000
Loss		
Loss attributable to the owners of the Company for the purpose of basic and diluted loss per share	(4,544,205)	(4,634,817)

	2015 '000	2014 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	12,145,573	11,860,642

Diluted loss per share for the years ended 31 December 2015 and 2014 were the same as the basic loss per share. The convertible bonds outstanding as at 31 December 2015 had an anti-dilutive effect on the basic loss per share and were not included in the calculation of diluted loss per share for the year ended 31 December 2015. There were no dilutive potential ordinary shares in existed during the year ended 31 December 2014.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Petroleum and natural gas properties HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 2014	136,684	3,488	1,976	2,569	–	–	38,759	183,476
Acquisition of a subsidiary *(Note 37)*	–	–	1,080	–	411	2,444,833	–	2,446,324
Additions	–	2,311	3,774	659	21	667,034	68,216	742,015
Disposals	–	–	–	–	–	(69)	–	(69)
Transfer from exploration and evaluation assets *(Note 21)*	–	–	–	–	–	10,338	–	10,338
Exchange differences	(3,428)	(95)	(101)	(92)	(23)	(139,993)	(1,202)	(144,934)
At 31 December 2014 and 1 January 2015	133,256	5,704	6,729	3,136	409	2,982,143	105,773	3,237,150
Additions	191	408	2,636	–	–	98,508	36,108	137,851
Disposals	(84)	(355)	(87)	–	–	–	–	(526)
Transfer from exploration and evaluation assets *(Note 21)*	–	–	–	–	–	325	–	325
Transfer from construction in progress	–	5,809	–	–	–	–	(5,809)	–
Exchange differences	(7,668)	(392)	(865)	(178)	(68)	(492,641)	(6,443)	(508,255)
At 31 December 2015	125,695	11,174	8,413	2,958	341	2,588,335	129,629	2,866,545
Accumulated depreciation and depletion and impairment								
At 1 January 2014	9,524	1,168	1,147	535	–	–	–	12,374
Charge for the year	4,300	514	1,195	468	351	292,806	–	299,634
Eliminated on disposals	–	–	–	–	–	(5)	–	(5)
Exchange differences	(253)	(31)	(30)	(15)	(4)	(2,174)	–	(2,507)
At 31 December 2014 and 1 January 2015	13,571	1,651	2,312	988	347	290,627	–	309,496
Charge for the year	4,084	967	1,617	504	52	238,100	–	245,324
Eliminated on disposals	(20)	(144)	(75)	–	–	–	–	(239)
Impairment loss recognised during the year	–	–	–	–	–	493,975	–	493,975
Exchange differences	(825)	(104)	(226)	(60)	(58)	(59,478)	–	(60,751)
At 31 December 2015	16,810	2,370	3,628	1,432	341	963,224	–	987,805
Net book value								
At 31 December 2015	**108,885**	**8,804**	**4,785**	**1,526**	**–**	**1,625,111**	**129,629**	**1,878,740**
At 31 December 2014	119,685	4,053	4,417	2,148	62	2,691,516	105,773	2,927,654

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment of petroleum and natural gas properties

As discussed in Note 4(g) to the consolidated financial statements, the Group's petroleum and natural gas properties are aggregated into different cash-generating units, based on management's judgment in defining the smallest identifiable group of assets. The recoverable amount of each cash-generating unit was determined on the basis of value in use calculations based on certain assumptions. Oil and natural gas prices beyond the fourth year are escalated at 1.5% per annum. All value in use calculations use future cash flow projection based on the drilling proposals on proved and probable reserves approved by the management and discounted at rate of 10%.

During the year ended 31 December 2015, as a result of technical revisions of reserve estimates and low global oil and natural gas prices which is expected to remain low, the Group carried out a review of the recoverable amount of the petroleum and natural gas properties belonged to the exploration, exploitation and operation segment. The review led to the recognition of an impairment loss of HK$493,975,000 (2014: HK$ Nil), which was recognised in consolidated statement of profit or loss and other comprehensive income for the year ended 31 December 2015. The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their value in use.

The recoverable amount of the Group's petroleum and natural gas properties were calculated using post-tax future net cash flows approved by management based on proved and probable reserves and discounted at the rate of 10% (2014: 10%) as required under the Chapter 18 of the Listing Rules on the Stock Exchange.

A 2% increase in the discount rate used in calculating impairment would result in an additional impairment of approximately HK$55,583,000 (2014: approximately HK$1,588,000) on petroleum and natural gas properties.

18. PREPAID LEASE PAYMENTS

	2015 HK$'000	2014 HK$'000
Net book value		
At the beginning of the year	**20,457**	21,497
Amortisation for the year	**(494)**	(524)
Impairment loss recognised during the year	**(828)**	–
Exchange differences	**(1,123)**	(516)
At the end of the year	**18,012**	20,457
The Group's prepaid lease payments comprise of:		
Land outside Hong Kong under medium term lease	**18,012**	20,457
Analysed for reporting purposes as:		
Current assets (include in prepayments, deposits and other receivables) *(Note 27)*	**474**	522
Non-current assets	**17,538**	19,935
	18,012	20,457

18. PREPAID LEASE PAYMENTS (Continued)

Amortisation on prepaid lease payments of HK$494,000 (2014: HK$524,000) have been charged to profit or loss for the year.

Impairment of prepaid lease payments

As the Directors of the Company expected not to allocate resources for the development of the prepaid lease payments in Madagascar and considered it is not probable that future economic benefits will flow to the Group, so an impairment loss of approximately HK$828,000 (2014: HK$ Nil) was recognised for the year ended 31 December 2015.

19. INVESTMENT PROPERTIES

	HK$'000
Fair value	
At 1 January 2014	29,099
Fair value changes	1,099
Exchange differences	(535)
At 31 December 2014 and 1 January 2015	29,663
Fair value changes	1,011
Exchange differences	(1,216)
At 31 December 2015	**29,458**

Included in profit or loss for the year ended 31 December 2015 are fair value change on investment properties (included in other gains and losses) amounting to HK$1,011,000 (2014: HK$1,099,000).

All of the Group's property interest held under operating leases to earn rentals or for capital appreciation purposes are measured using the fair value model and are classified and accounted for as investment properties.

The fair value of the Group's investment properties at 31 December 2015 and 2014 have been arrived at on the basis of valuations carried out on the respective dates by Ascent Partners Valuation Service Limited ("Ascent Partners") and Colliers International (Hong Kong) Limited ("Colliers") (2014: Ascent Partners and Cushman & Wakefield Valuation Advisory Services (HK) Limited ("Cushman & Wakefield")), independent qualified professional valuers not connected with the Group. Ascent Partners, Colliers and Cushman & Wakefield have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

At each financial year end, the management of the Group will (i) verify all major inputs to the independent valuation report; (ii) assess property valuations movements when compared to the prior year valuation report; and (iii) holds discussion with the independent valuer.

There were no transfers between Levels 1 and 2 in the both years.

The Group's policy is to recognise transfer into and transfer out of fair value hierarchy levels as of the date of the event or change in circumstances that caused the transfer.

19. INVESTMENT PROPERTIES (Continued)

Valuation techniques

Income approach (term and reversion approach)

The income approach (term and reversion approach) estimates the value of properties on a market basis by capitalizing net rental income on a fully leased basis. This method is typically used when a property is leased out for a specific term(s). This technique considers both the current passing rental income from existing tenancies and the potential future reversionary income at market level, by capitalising both at appropriate rates. In calculating the net rental income for this purpose, deduction is made for outgoings such as property management fees, vacancy loss, and other necessary expenses.

Direct sales comparison approach

Direct sales comparison approach estimates the value of the property interest by comparing recent sales of similar interests in the building or buildings located in their surrounding area. By analysing such sales which qualify as 'arms-length' transactions, between willing buyers and sellers, adjustments are made for size, location, time, amenities and other relevant factors when comparing such sales prices to assess the value of the subject property.

Significant unobservable inputs used to determine fair value

	Fair value at 31 December 2015 HK$'000	Fair value at 31 December 2014 HK$'000	Valuation technique	Fair value hierarchy	Range of significant unobservable inputs: Market unit rent	Market unit value	Capitalisation rates	Sensitivity
Investment properties located in the PRC	**20,158**	21,083	Direct sales comparison approach and income approach	Level 3	RMB17 to RMB51 per square metre (2014: RMB12 to RMB50 per square metre)	RMB1,690 to RMB8,646 per square metre (2014: RMB2,500 to RMB8,700 per square metre)	5.5% to 10% (2014: 5.5% to 10%)	A slight increase in the capitalisation rate used would result in a significant decrease in fair value, and vice versa. A significant increase in the market unit rent used would result in a significant increase in fair value, and vice versa. A significant increase in the market unit value used would result in a significant increase in fair value, and vice versa.
Investment properties located in Madagascar	**9,300**	8,580	Direct sales comparison approach	Level 2	N/A	USD173 per square metre (2014: USD159 per square metre)	N/A	A significant increase in the market unit value used would result in a significant increase in fair value, and vice versa.

19. INVESTMENT PROPERTIES (Continued)

Significant unobservable inputs used to determine fair value (Continued)

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

There has been no significant change from the valuation technique used in the prior year.

In estimating the fair value of the investment properties, the highest and best use of the investment properties is their current use.

Details of the Group's investment properties and information about the fair value hierarchy as at the end of the reporting period were as follows:

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31/12/2015 HK$'000
Commercial building located in the PRC	3,881	–	3,881
Petrol station and land located in the PRC	–	4,187	4,187
Office units located in the PRC	–	9,938	9,938
Office building located in the PRC	2,152	–	2,152
Land located in Madagascar	9,300	–	9,300
	15,333	14,125	29,458

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31/12/2014 HK$'000
Commercial building located in the PRC	4,118	–	4,118
Petrol station and land located in the PRC	–	4,224	4,224
Office units located in the PRC	–	10,495	10,495
Office building located in the PRC	2,246	–	2,246
Land located in Madagascar	8,580	–	8,580
	14,944	14,719	29,663

20. INTANGIBLE ASSETS

	Refined oil supply agreement HK$'000
Cost	
At 1 January 2014	293,120
Exchange differences	(7,351)
At 31 December 2014 and 1 January 2015	285,769
Exchange differences	(16,442)
At 31 December 2015	269,327
Accumulated impairment	
At 1 January 2014	–
Impairment loss recognised during the year	207,924
Exchange differences	(698)
At 31 December 2014 and 1 January 2015	207,226
Impairment loss recognised during the year	26,465
Exchange differences	(12,212)
At 31 December 2015	221,479
Carrying amount	
At 31 December 2015	**47,848**
At 31 December 2014	78,543

The intangible assets represent a supply agreement which enables the Group to have stable and sufficient supply of refined oil in the PRC.

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

20. INTANGIBLE ASSETS (Continued)

The Refined Oil Supply Agreement has been expired during the year ended 31 December 2013 and it was renewed on 24 December 2013 by both parties. Pursuant to the renewed Refined Oil Supply Agreement, Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for three years starting from 1 January 2014. The Refined Oil Supply Agreement is renewable another term of every three years under negotiation between both parties, subject to and on the conditions and terms of the Refined Oil Supply Agreement. The Directors are not aware of any expected impediment with respect to the renewal of the Refined Oil Supply Agreement and consider that the possibility of failing in Refined Oil Supply Agreement renewal is remote and the Refined Oil Supply Agreement will generate net cash inflows for the acquiring entity for an indefinite period. Therefore, the Refined Oil Supply Agreement is treated as having an indefinite useful life.

Impairment test for the year ended 31 December 2015

During the year ended 31 December 2015, the Group carried out an impairment testing on its intangible asset in relation to the Refined Oil Supply Agreement with reference to a valuation performed by an independent valuer, Colliers, which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of HK$26,465,000 on the Refined Oil Supply Agreement has been made for the year as the Directors expected that the recoverable amount separated from the underlying assets would be less than previously expected.

Colliers considered that the market approach is not used as there are lack of financial information and full details regarding sales of similar assets and there are no similar subject assets in the market for comparison purpose, while the cost approach is not considered to be an appropriate approach for valuing income-generating assets as it does not capture expected returns to the asset. Income approach has been consistently adopted for impairment testing of the said intangible asset. Income approach estimates the future economic benefits to be generated from the Refined Oil Supply Agreement. Cash flow projections during the budget period are based on the same gross margins during the budget period. The pre-tax discount rate of 21.5%. The recoverable amount of the Refined Oil Supply Agreement is its value in use and has been determined based on cash flow projections covering 3-year period, as the Directors consider that it will reflect more stable growth rate for the refined oil business.

The Group considered that such impairment loss was the combined effects of the decrease in gross profit margin due to significant decrease in crude oil price, and the decrease in refined oil supplied from Yanchang Petroleum Group.

Impairment test for the year ended 31 December 2014

During the year ended 31 December 2014, the Group carried out an impairment testing on its intangible asset in relation to the Refined Oil Supply Agreement with reference to a valuation performed by an independent valuer, Cushman & Wakefield, which has appropriate qualification and experience in the valuation of similar assets. Impairment loss of HK$207,924,000 on the Refined Oil Supply Agreement has been made for the year as the Directors expected that the recoverable amount separated from the underlying assets would be less than previously expected.

20. INTANGIBLE ASSETS (Continued)

Impairment test for the year ended 31 December 2014 (Continued)

Cushman & Wakefield considered that the market approach is not used as there are lack of financial information and full details regarding sales of similar assets and there are no similar subject assets in the market for comparison purpose, while the cost approach is not considered to be an appropriate approach for valuing income-generating assets as it does not capture expected returns to the asset. Income approach has been consistently adopted for impairment testing of the said intangible asset. Income approach estimates the future economic benefits to be generated from the Refined Oil Supply Agreement. Cash flow projections during the budget period are extrapolated using a steady grown rate of 5% per annum and are based on the same gross margins during the budget period. The pre-tax discount rate used was 21.2%. The recoverable amount of the Refined Oil Supply Agreement is its value in use and has been determined based on cash flow projections covering 3-year period, as the Directors consider that it will reflect more stable growth rate for the refined oil business.

The Group considered that such impairment loss was the combined effects of the decrease in gross profit margin due to significant decrease in crude oil price, the decrease in refined oil supplied from Yanchang Petroleum Group, and the increase in distribution and administrative expense of Henan Yanchang operation.

The key assumption used in the value in use calculations for both years:

Budgeted sales	The values assigned to the assumptions reflect past experience and are consistent with management plans for focusing operations in these markets. The Directors of the Company believes that the budgeted sales per year for the next three years is reasonably achievable.

21. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2014	12,341,671
Additions arising from jointly controlled operation	4,897
Acquisition of a subsidiary *(Note 37)*	65,229
Additions	44,357
Disposals and written off	(2,905)
Transfer to property, plant and equipment *(Note 17)*	(10,338)
Exchange differences	(3,627)
At 31 December 2014 and 1 January 2015	12,439,284
Additions	38,812
Disposals and written off	(8,615)
Transfer to property, plant and equipment *(Note 17)*	(325)
Exchange differences	(10,598)
At 31 December 2015	12,458,558
Accumulated impairment	
At 1 January 2014	3,757,059
Impairment loss recognised during the year	4,517,062
At 31 December 2014 and 1 January 2015	8,274,121
Impairment loss recognised during the year	4,138,179
At 31 December 2015	12,412,300
Carrying amount	
At 31 December 2015	**46,258**
At 31 December 2014	4,165,163

21. EXPLORATION AND EVALUATION ASSETS (Continued)

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

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

The Group has adopted HKFRS 6 *Exploration for and Evaluation of Mineral Resources* and HKAS 36 *Impairment of Assets* which require the Group to assess any impairment at each reporting date.

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

Impairment test – Two Oilfield Blocks

For the year ended 31 December 2015

In view of substantial time and resources have been put into the exploration works on the Two Oilfield Blocks in Madagascar over the years by the Group, and yet the oilfields have not commenced production. After assessment on data and information collected from the exploration and evaluation activities carried out by the Group during the past few years, and having considered various factors, inter alia, the trend of global oil and gas prices expected to remain low going forward, the Company based on principal of prudence determined to carry out a thorough review as to whether commercially recoverable reserves justified in the Two Oilfield Blocks in Madagascar.

To assess whether the Two Oilfield Blocks in Madagascar are still economic beneficial to the Group, the Company engaged an independent valuer, Roma Oil and Mining Associate Limited ("Roma"), which has appropriate qualification and experience in the valuation of similar assets and in the preparation of a competent person's report in accordance with the current requirements of the Chapter 18 of the Listing Rules on the Stock Exchange.

According to the competent person's report that 1) there are only prospective resources technically justified and considered that it has not led to the discovery of commercially viable quantities; 2) the carrying amount of the exploration and evaluation assets is unlikely to be recovered in full by sale; and 3) the rights to explore in the Two Oilfield Blocks will expire on November 2017 and thereafter to be renewed is not certain. In addition, the estimated expenditure to further develop the Two Oilfield Blocks is substantial. After taking into account of the above key factors, the technically feasibility or commercial viability of the Two Oilfield Blocks are remote.

Since there are only prospective resources technically justified in the Two Oilfield Blocks in Madagascar, the Group considered that there are no economic reserves in the Two Oilfield Blocks and the inflow of future economic benefit is not probable. As such, impairment loss of HK$4,138,179,000 on the exploration and evaluation assets in relation to the Two Oilfield Blocks has been made for the year ended 31 December 2015.

21. EXPLORATION AND EVALUATION ASSETS (Continued)

Impairment test – Two Oilfield Blocks (Continued)

For the year ended 31 December 2014

In view of the international crude oil price decreased significantly, the Group carried out an impairment testing on its exploration and evaluation assets in relation to the Two Oilfield Blocks in Madagascar with reference to a valuation performed by Cushman & Wakefield, which has appropriate qualification and experience in the valuation of similar assets. The recoverable amount of the exploration and evaluation assets is its fair value less costs of disposal and the fair value measurement is categorised as Level 2. As such, impairment loss of HK$4,517,062,000 on the exploration and evaluation assets in relation to the Two Oilfield Blocks has been made for the year ended 31 December 2014.

Three common valuation approaches, namely cost approach, income approach and market approach have been considered in the valuation by Cushman & Wakefield. Cushman & Wakefield considered that the cost approach is not considered to be an appropriate approach for valuing income-generating assets, while the income approach is not considered to be appropriate as it is not able to estimate the future economic benefits using reliable parameters and assumptions under the current operating stage in the Two Oilfield Blocks. Market approach has been consistently adopted for impairment testing of the said exploration and evaluation assets since its acquisition by the Group. The market approach was adopted for the valuation of the Group's exploration and evaluation assets situated at the Two Oilfield Blocks in Madagascar because it is the most direct approach which reflects the value obtained as a result of consensus of market participants. The comparable transactions method was applied by comparing similar recent purchase and sale transactions. The key assumptions adopted by Cushman & Wakefield were to use the adjusted consideration price to adjusted proved and probable reserve (the "Price/Reserve") multiples of the comparable transactions to determine the market value of the exploration and evaluation assets. The adjusted consideration prices were determined by adding corresponding debts and subtracting corresponding working capitals, and land values etc of the acquired assets. The adjusted proved and probable reserves were determined by proved and probable reserves multiplied by one minus the corresponding government royalty rates.

The significant observable inputs used in the valuation are the comparable transaction prices of similar exploration and evaluation assets which are mainly determined by the market oil price as well as the market sentiment and prospects of oil price from market participants. Due to the significant decline in global crude oil price during the year 2014, the consideration prices of the comparable transactions were decreased and thus the Price/Reserve multiples dropped from 12.26 to 4.16 in the year 2014.

Impairment test – E&E in Canada

For the years ended 31 December 2015 and 2014

The Group assessed the E&E in Canada for any indicators of impairment exist for the years ended 31 December 2015 and 2014. Based on future drilling plans, recent land sales and the policy to expense surrendered and expired leases, there was no impairment recognised for the year ended 31 December 2015 (2014: Nil).

22. AVAILABLE-FOR-SALE INVESTMENT

	2015 HK$'000	2014 HK$'000
Unlisted investment, equity securities		
At cost	196,072	196,072
Impairment loss recognised	(196,072)	(196,072)
At carrying amount	–	–

The board of Directors does not believe that the Group is able to exercise significant influence over Gold Grand Investments Limited ("Gold Grand"), as the remaining equity interests were held by one shareholder, who also manages the day-to-day operations of Gold Grand. Therefore, the investment in Gold Grand was not classified as investment in an associate during the year.

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

23. GOODWILL

	2015 HK$'000	2014 HK$'000
Cost/carrying amount		
At the beginning and the end of the year	51,418	51,418

During the year, the Directors determine that no impairment loss should be provided in respect of any cash-generating units containing goodwill (2014: Nil).

The carrying amount of goodwill (net of impairment losses) at 31 December 2015 and 2014 allocated to the cash-generating unit is as follow:

	2015 HK$'000	2014 HK$'000
Trading and distribution of oil related products	51,418	51,418

The recoverable amount of the above cash-generating unit was determined on the basis of value in use calculations. The recoverable amount is based on certain assumptions. All value in use calculations use cash flow projections based on the financial budgets approved by the management covering a 3-year period. The pre-tax discount rate used is 19.3% (2014: 19.4%). Cash flows beyond 3-year period are extrapolated using a steady rate of 5% per annum. The Directors believe that any reasonable possible change in the key assumptions on which the recoverable amount is based would not cause the carrying amount to exceed its recoverable amount.

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

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

Note:

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

24. JOINT OPERATION

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

For the year ended 31 December 2015 and 2014, the aggregate amount of assets, liabilities, income and expenses recognised in the consolidated financial statements in relation to interest in joint operation are as follows:

	2015 HK$'000	2014 HK$'000
Assets *(Note)*	16,140	211,553
Liabilities	(243)	(125)

	2015 HK$'000	2014 HK$'000
Income	–	–
Expenses	(34)	(125)

Note:

The assets mainly comprised of exploration and evaluation assets. The decrease in assets held by joint operation was mainly due to the impairment of exploration and evaluation assets recognised for the year ended 31 December 2015. For details of impairment testing on exploration and evaluation assets, please refer to Note 21.

25. INVENTORIES

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

26. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 30–90 days (2014: 30–90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

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

	2015 HK$'000	2014 HK$'000
0 to 30 days	234,397	207,903
31 to 60 days	294	382
61 to 90 days	68	241
Over 90 days	2,025	873
	236,784	209,399

The Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable. The amount of HK$2,025,000 (2014: HK$873,000) are past due at the end of the reporting period but not impaired. The Group does not hold any collaterals or other credit enhancements over these balances.

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2015 HK$'000	2014 HK$'000
Prepaid lease payments *(Note 18)*	474	522
Prepayments to suppliers of refined oil products	97,399	100,148
Other prepayments	3,902	34,472
Other deposits	291	358
Other receivables	13,346	16,295
	115,412	151,795

In determining the recoverability of other receivables, the Group considers any change in credit quality of the other receivables from the date credit was initially granted up to the end of the reporting period. No impairment loss was recognised as at 31 December 2015 and 2014. The Group does not hold any collaterals over these balances.

28. DERIVATIVE FINANCIAL INSTRUMENTS

	2015 HK$'000	2014 HK$'000
Current (liabilities)/assets		
Oil commodity contracts	(35)	18,687
Derivative components of convertible bonds *(Note 33)*	(4,348)	–
	(4,383)	18,687

The derivative financial instruments are initial measured at fair value with changes in fair value recognised in profit or loss.

At 31 December 2015 and 2014, the Group did not designate any derivative financial instruments as hedging instruments and are held for trading purpose. The Group had outstanding oil and natural gas commodity contract at 31 December 2015 and 2014 as follows:

Commodity	Contract type	Period term	Notional volume	Price	Reference
At 31 December 2015:					
Crude oil	Written call	1/1/2016 – 31/3/2016	1,500 bbls/day	CAD75/bbl	WTI-NYMEX
At 31 December 2014:					
Crude oil	Fixed price	1/3/2014 – 31/3/2015	750 bbl/day	CAD104.19/bbl	WTI-NYMEX

29. CASH AND BANK BALANCES

Included in the cash and bank balances as at 31 December 2015 were amounts in RMB equivalent to HK$268,361,000 (2014: HK$494,972,000) which are not freely convertible into other currencies.

30. SHARE CAPITAL

	Number of shares		Share capital	
	2015	2014	**2015**	2014
	'000	'000	**HK$'000**	HK$'000
Authorised:				
Ordinary shares of HK$0.02 each	**100,000,000**	100,000,000	**2,000,000**	2,000,000
Issued and fully paid:				
At the beginning of the year, ordinary shares of HK$0.02 each	**12,145,573**	8,145,573	**242,911**	162,911
Issuance of ordinary shares upon conversion of convertible bond *(Note)*	**–**	4,000,000	**–**	80,000
At the end of the year, ordinary shares of HK$0.02 each	**12,145,573**	12,145,573	**242,911**	242,911

Note:

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

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

Share options

Share option scheme

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

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

30. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme (Continued)

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

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

The maximum number of shares available for issue under options which may be granted under the Scheme of the Company is 684,557,304 (2014: 684,557,304) shares (being not more than 10% of the total number of shares in issue as at the date of adoption of the Scheme), representing 5.6% (2014: 5.6%) of the total number of shares in issue as at the date of this annual report.

No share option was granted under the Scheme during the years ended 31 December 2015 and 2014.

31. TRADE AND OTHER PAYABLES

	2015 HK$'000	2014 HK$'000
Trade payables	291,773	271,319
Deposit received in advance from customers	110,099	79,706
Other payables (Note)	65,520	123,032
	467,392	474,057

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

	2015 HK$'000	2014 HK$'000
0 to 30 days	290,571	262,988
31 to 60 days	370	5,619
61 to 90 days	159	1,565
Over 90 days	673	1,147
	291,773	271,319

As at 31 December 2015 and 2014, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

Included in other payables as at 31 December 2015 were dividend payable to a non-controlling shareholder of a subsidiary of approximately HK$2,873,000 (2014: HK$3,129,000).

32. BANK BORROWINGS

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

	2015 HK$'000	2014 HK$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note a)*	94,088	199,664
Secured bank borrowings *(Note b)*	569,997	728,454
	664,085	928,118

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

	2015	2014
Floating rate	3.75–6.00%	3.49–6.00%

Notes:

(a) As at 31 December 2015, Henan Yanchang drawn unsecured bank borrowings of RMB80,000,000 (equivalent to HK$94,088,000) (2014: RMB160,000,000 (equivalent to HK$199,664,000)). The bank borrowings denominated in RMB bear interest at the prevailing market rates quoted by the People's Bank of China and repayable within next twelve months.

(b) As at 31 December 2015, Novus Energy Inc. ("Novus") drawn Canadian dollar ("CAD") 92,150,000 (equivalent to HK$514,197,000) (2014: CAD109,050,000 equivalent to HK$728,454,000)) against its CAD110 million revolving operating demand loan and drawn CAD10,000,000 (equivalent to HK$55,800,000) against its CAD15,000,000 non-revolving term loan. The revolving operating demand loan is available to Novus by way of prime rate based loans, bankers' acceptances and letters of credit/guarantee with interest paid monthly. Rates and fees are determined quarterly and are based on a grid system with interest rates ranging from 1.0% to 3.5% (2014: 0.5% to 2.5%) over the bank's prime lending rate; bankers' acceptances stamping fees ranging from 2.0% to 4.5% (2014: 1.75% to 3.75%); letters of credit/guarantee fees ranging from 2.0% to 4.5% (2014: 1.5% to 3.0%); and standby fees ranging from 0.5% to 1.125% (2014: 0.2% to 0.45%), all depending on a net debt to cash flow ratio ranging from less than or equal to 1:1 up to greater than 4:1 (2014: 1:1 up to greater than 3:1). The non-revolving term loan carries rates and fees of 2.00% above those as determined by the pricing grid for the revolving operating demand loan.

As at 31 December 2015, interest on the revolving operating demand loan is charged at prime plus 1.75% (2014: 0.75%) per annum, bankers' acceptances stamping fees are 2.75% (2014: 2%) per annum, letters of credit/guarantee are charged a fee of 2.75% (2014: 1.75%) per annum, and standby fees are 0.6875% (2014: 0.25%) per annum. Interest on the non-revolving term demand loan was charged at 2.00% above that of revolving operating remand loan.

The credit facilities are secured by a general assignment of book debts and a CAD200 million debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges upon request. The credit facilities are subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1, but for the purpose of the covenant, outstanding bank debt and the fair value of any commodity contacts are excluded and the unused portion of the revolving operating demand loan may be added to current assets. As at 31 December 2015, this ratio of Novus is 2.7:1 (2014: 1.6:1). The credit facilities are subject to periodic review by the bank.

33. CONVERTIBLE BONDS

For the year ended 31 December 2015

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000 ("2015 Convertible Bonds"). The 2015 Convertible Bonds bear annual interest rate of 5% and mature on the date falling on the third anniversary of the date of issuance. The 2015 Convertible Bonds entitles the holder to convert to the ordinary shares of the Company at an initial conversion price of HK$0.40 per share (in integral multiple of US$1,000,000 or such lesser amount representing the entire outstanding principal amount of the 2015 Convertible Bonds).

The initial conversion price of HK$0.40 will be subject to adjustment (but in no event shall the adjusted share price be lower than 90% of the conversion price other than subdivision of shares) upon the occurrence of the following events: (a) consolidation or subdivision of shares; (b) capitalisation of profits or reserves; (c) issue of shares by way of scrip dividend; (d) if the weighted average price of the shares for the ten consecutive trading days before the first anniversary of the issue of the 2015 Convertible Bonds is lower than the then conversion price, the conversion price should be adjusted to the lower market price; or (e) the Company or the bondholder is of the view that other event(s) requires an adjustment to be made to the conversion price upon which the Company and the bondholder shall jointly appoint a recognised professional to make a fair and reasonable adjustment to the conversion price.

Conversion may occur at any time during the date of the issuance of the 2015 Convertible Bonds, up to the close of business on the date falling 5 business days prior to the maturity date.

Unless previously converted, purchased and cancelled, the Company shall pay the outstanding principal amount under the 2015 Convertible Bonds by cash on the maturity date. The bondholder may, at its option and within a month after the second anniversary of the issue date, notify the Company in writing to request the Company to redeem the 2015 Convertible Bonds in whole or in part in an amount equal to the sum of the outstanding principal amount of the 2015 Convertible Bonds to be redeemed, plus a premium representing an annual interest rate of 5% on the relevant principal amount together with all accrued and outstanding interest calculated from the issue date to the early redemption date. The Company shall not be entitled to early redeem the 2015 Convertible Bonds before the maturity date.

The Company undertakes to comply with the specific covenants at all times until the date when all the 2015 Convertible Bonds have been converted into conversion shares or the Company has redeemed all the 2015 Convertible Bonds, whichever is earlier.

The 2015 Convertible Bonds contains two components: liability component and derivative financial liabilities component. The effective interest rate of the liability component on initial recognition is 9.76% per annum.

33. CONVERTIBLE BONDS (Continued)

For the year ended 31 December 2015 (Continued)

The liability component is classified as non-current liabilities and carried at amortised cost using the effective interest method. The derivative financial liabilities component is measured at fair value using the Monte Carlo Simulation Model method. The fair value changes were recognised in profit or loss.

	HK$'000
Liability component at date of issue	353,430
Derivative financial liabilities component at date of issue	5,395
Proceeds of issue	358,825
Liability component at date of issue	353,430
Imputed interest charged *(Note 13)*	754
Interest payable	(392)
Liability component at 31 December 2015	353,792

	Redemption options held by bondholder HK$'000	Change in conversion price of convertible bonds HK$'000	Total HK$'000
Derivative financial liabilities component at date of issue	3,986	1,409	5,395
Fair value change *(Note 9)*	(1,276)	229	(1,047)
Derivative financial liabilities component at 31 December 2015	2,710	1,638	4,348

33. CONVERTIBLE BONDS (Continued)

For the year ended 31 December 2015 (Continued)

The key inputs used for the calculation of the fair value of the derivative financial components of convertible bonds are as follows:

	At 23 December 2015	At 31 December 2015
Time to maturity	3 years	2.98 years
Share price	HK$0.17	HK$0.15
HKD/USD exchange rate	7.75	7.75
Conversion price	HK$0.40	HK$0.40
Expected share price volatility	37%	37%
Risk-free rate	1.30%	1.30%
Discount rate	9.76%	9.79%

The derivative financial liabilities component represents:

i) Redemption options held by bondholder

Pursuant to the agreement in relation to the issue of the convertible bonds, the bondholder may, at its option and within a month after the second anniversary of the issue date, to request the Company to redeem the convertible bonds in whole or in part in an amount equal to the sum of the outstanding principal amount of the convertible bonds to be redeemed, plus a premium representing an annual interest rate of 5% on the relevant principal amount together with all accrued and outstanding interest calculated from the issue date to the early redemption date. As at 31 December 2015, the fair value of redemption options was approximately HK$1,638,000.

ii) Change in conversion price of convertible bonds

Pursuant to the agreement in relation to the issue of the convertible bonds, if the weighted average price of the shares for the ten consecutive trading days before the first anniversary of the issue of convertible bonds is lower than the then conversion price, the conversion price should be adjusted to the lower market price. As at 31 December 2015, the derivatives arising from change in conversion price of convertible bonds was approximately HK$2,710,000.

After provision for impairment loss made on the Group's non-current assets as at 31 December 2015, the Company has not fulfilled certain specific covenants as set out in the 2015 Convertible Bonds agreement. The Company is currently on negotiation with the bondholder to amend certain terms and conditions of the 2015 Convertible Bonds agreement based on the current financial position of the Group. Up to the date of approval of consolidated financial statements of the Group, the negotiation between the Company and bondholder is still in progress. The Company expected it is probable that the bondholder will agree to amend certain terms and conditions of the convertible bond agreement. Therefore, the Directors considered that the 2015 Convertible Bonds were classified as non-current liabilities at the end of the reporting period.

33. CONVERTIBLE BONDS (Continued)

For the year ended 31 December 2014

On 7 January 2014, the Company issued convertible bonds in the principal amount of HK$1,600,000,000 ("2014 Convertible Bonds") to Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK"). The 2014 Convertible Bonds is interest-free and matures on the date falling on the third anniversary of the date of issuance ("Maturity Date"). The 2014 Convertible Bonds entitles the holder to convert to the ordinary shares of the Company at a conversion price of HK$0.40 per share (in integral multiple of HK$1,000,000 or such lesser amount representing the entire outstanding principal amount of the 2014 Convertible Bonds) and will be convertible into 4,000,000,000 shares assuming full conversion.

Conversion may occur at any time during the date of the issuance of the 2014 Convertible Bonds, up to the close of business on the date falling 5 business days prior to the maturity date.

Unless previously converted, purchased and cancelled, the Company shall pay the outstanding principal amount under the 2014 Convertible Bonds by cash on the maturity date; the Company may redeem the 2014 Convertible Bonds at any time and from time to time before the maturity date upon mutual agreement with the subscriber.

The 2014 Convertible Bonds contains two components: liability component and equity component. The equity component is presented in the consolidated statement of changes in equity heading "Convertible bonds reserve". The effective interest rate of the liability component on initial recognition is 9.54% per annum.

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

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

34. DECOMMISSIONING LIABILITIES

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

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

	2015 **HK$'000**	2014 HK$'000
At the beginning of the year	**111,227**	–
Acquisition of a subsidiary *(Note 37)*	**–**	103,261
Liabilities incurred	**792**	16,342
Liabilities settled	**(3,623)**	(5,168)
Liabilities extinguished on property dispositions	**(1,936)**	(616)
Accretion expense *(Note 13)*	**2,886**	3,205
Exchange realignment	**(18,286)**	(5,797)
At the end of the year	**91,060**	111,227

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD25.7 million (equivalent to HK$144 million) (2014: CAD26.1 million (equivalent to HK$174 million)). The obligations were calculated using a risk-free interest rate of 3.25% and an inflation rate of 2%. It is expected that the obligations will be funded from Novus' general resources at the time the costs are incurred with the majority of costs expected to occur between 2020 and 2037.

35. DEFERRED TAX LIABILITIES

	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Investment properties HK$'000	Intangible assets HK$'000	Derivative financial instruments HK$'000	Decommissioning liabilities HK$'000	Non-capital losses HK$'000	Share issuance costs HK$'000	Tax assets not recognised HK$'000	Convertible bond HK$'000	Total HK$'000
At 1 January 2014	7,627	1,846	2,807	73,280	–	–	–	–	–	–	85,560
Acquisition of a subsidiary *(Note 37)*	230,364	–	–	–	–	(26,807)	(128,292)	(1,080)	41,708	–	115,893
Debited/(credited) to profit or loss during the year *(Note 14)*	49,035	–	236	(51,981)	4,886	(3,563)	(2,978)	1,028	2,071	(902)	(2,168)
Issuance of convertible bonds	–	–	–	–	–	–	–	–	–	63,202	63,202
Release upon conversion of convertible bonds	–	–	–	–	–	–	–	–	–	(62,300)	(62,300)
Exchange differences	(13,273)	(46)	(40)	(1,663)	(36)	1,507	7,104	52	(2,318)	–	(8,713)
At 31 December 2014 and 1 January 2015	273,753	1,800	3,003	19,636	4,850	(28,863)	(124,166)	–	41,461	–	191,474
(Credited)/debited to profit or loss during the year *(Note 14)*	(99,203)	–	1,382	(6,617)	(3,037)	508	(43,260)	–	1,000	–	(149,227)
Effect on change in tax rate	9,147	–	–	–	166	(991)	(4,265)	–	1,424	–	5,481
Exchange differences	(48,247)	(104)	(107)	(1,057)	(753)	4,760	21,201	–	(6,866)	–	(31,173)
At 31 December 2015	**135,450**	**1,696**	**4,278**	**11,962**	**1,226**	**(24,586)**	**(150,490)**	**–**	**37,019**	**–**	**16,555**

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2015 (2014: Nil).

36. RETIREMENT BENEFITS PLANS

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

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

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

The total cost charged to profit or loss of HK$493,000 for the year ended 31 December 2015 (2014: HK$406,000) represented contributions payable to the above schemes by the Group.

37. ACQUISITION OF A SUBSIDIARY

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

	Acquiree's carrying amount HK$'000	Fair value adjustments HK$'000	Fair value HK$'000
Net assets acquired:			
Property, plant and equipment *(Note 17)*	1,646,151	800,173	2,446,324
Exploration and evaluation assets *(Note 21)*	65,229	–	65,229
Trade receivables	112,592	–	112,592
Prepayments, deposits and other receivables	4,938	–	4,938
Trade and other payables	(113,956)	–	(113,956)
Bank borrowings	(641,146)	–	(641,146)
Derivative financial instruments	(9,915)	–	(9,915)
Decommissioning liabilities *(Note 34)*	(103,261)	–	(103,261)
Deferred tax assets/(liabilities) *(Note 35)*	91,832	(207,725)	(115,893)
	1,052,464	592,448	1,644,912
Gain on bargain purchase *(Note 9)*			(1,420)
Total consideration			1,643,492

37. ACQUISITION OF A SUBSIDIARY (Continued)

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

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

Notes:

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

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

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

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

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

38. OPERATING LEASE ARRANGEMENTS

The Group as lessee

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

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

	2015 **HK$'000**	2014 HK$'000
Within one year	**6,512**	8,985
In the second to fifth year, inclusive	**6,362**	12,886
	12,874	21,871

The Group as lessor

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

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

	2015 **HK$'000**	2014 HK$'000
Within one year	**1,311**	2,608
In the second to fifth year, inclusive	**2,110**	6,889
Over five years	**46**	48
	3,467	9,545

39. COMMITMENTS

The Group had capital commitments to pay pipeline construction costs amounted to HK$19,331,000 (2014: HK$24,991,000) and exploration and evaluation cost amounted to HK$Nil (2014: HK$1,974,000) which were contracted but not provided for as at 31 December 2015.

40. CONTINGENT LIABILITIES

As at 31 December 2015, the Group had no contingent liabilities (2014: Nil).

41. MATERIAL RELATED PARTIES TRANSACTIONS

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

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

Key management personnel

	2015 HK$'000	2014 HK$'000
Salaries and allowance	6,315	7,231
Mandatory provident fund contributions	30	29
	6,345	7,260

During the year ended 31 December 2015, the Group had the following connected transactions with related parties:

Name of related parties	Relationship	Nature of transactions	2015 HK$'000	2014 HK$'000
Yanchang Petroleum Group	A substantial shareholder	Supply of refined oil	2,358,345	2,557,372

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

42. PARTICULARS OF SUBSIDIARIES

Particulars of the principal subsidiaries of the Company as at 31 December 2015 were as follows:

Name	Place of incorporation/ establishment	Nominal value of issued and fully paid-up share/ registered capital	Percentage of equity attributable to the Company Direct	Percentage of equity attributable to the Company Indirect	Principal activities
Dolaway Group Limited	BVI	Ordinary US$100	100	–	Investment holding
Madagascar Petroleum International Limited	BVI	Ordinary US$1,000	–	100	Oil and gas exploration, exploitation and operation
Madagascar Energy International Limited	BVI	Ordinary US$1,000	–	100	Oil and gas exploration, exploitation and operation
Forever Peace Investment Limited	Hong Kong	Ordinary HK$1	–	100	Investment holding
Shaanxi Hengtai Energy Technology Development Limited	PRC	Registered/paid-up capital RMB30,000,000	–	100	Investment holding
Xian Guotai Basic Energy Development Co., Limited	PRC	Registered/paid-up capital RMB25,500,000	–	100	Investment holding
Henan Yanchang	PRC	Registered/paid-up capital RMB35,000,000	–	70	Wholesale, retail, storage and transportation of refined oil
Metro City Group Limited	BVI	Ordinary US$1	100	–	Investment holding
Forever Mind Limited	Hong Kong	Ordinary HK$100	–	100	Investment holding
Henan Yanchang Petroleum Energy Technology Limited ("Henan Yanchang Energy")	PRC	Registered/paid-up capital RMB50,000,000	–	70	Transportation of refined oil
Noble Soar Limited	BVI	Ordinary US$1	100	–	Investment holding
Yanchang Petroleum International Trading Limited	Hong Kong	Ordinary HK$1	–	100	Provision of management services to the holding company
Yanchang International (Canada) Limited	Canada	Common CAD238,022,520	–	100	Investment holding
Novus	Canada	Common CAD131,671,475	–	100	Acquiring, exploring for, developing and producing crude oil and natural gas
Madagascar Energy and Petroleum Investments Limited	Madagascar	Ordinary Ar. 2,000,000	–	100	Provision of oil related services

42. PARTICULARS OF SUBSIDIARIES (Continued)

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

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

Name	Place of incorporation/ establishment	Proportion of ownership interests and voting rights held by non-controlling interests		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2015	2014	2015 HK$'000	2014 HK$'000	2015 HK$'000	2014 HK$'000
Henan Yanchang	PRC	30%	30%	18,267	(23,799)	95,363	88,125
Henan Yanchang Energy	PRC	30%	30%	(34)	54	17,578	18,686

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

Henan Yanchang

	2015 HK$'000	2014 HK$'000
Current assets	646,553	605,709
Non-current assets	207,851	248,862
Current liabilities	(513,105)	(530,325)
Non-current liabilities	(23,421)	(30,495)
Equity attributable to owners of the Company	222,515	205,626
Non-controlling interests	95,363	88,125

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2015

42. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang (Continued)

	2015 HK$'000	2014 HK$'000
Revenue	22,949,141	21,530,572
Cost of sales	(22,803,665)	(21,385,786)
Expenses	(84,586)	(224,115)
Profit/(loss) attributable to the owner of the Company	42,623	(55,530)
Profit/(loss) attributable to the non-controlling interests	18,267	(23,799)
Profit/(loss) for the year	60,890	(79,329)
Other comprehensive loss attributable to the owner of the Company	(12,148)	(6,818)
Other comprehensive loss attributable to the non-controlling interests	(5,207)	(2,923)
Other comprehensive loss for the year	(17,355)	(9,741)
Total comprehensive income/(loss) attributable to the owner of the Company	30,475	(62,348)
Total comprehensive income/(loss) attributable to the non-controlling interests	13,060	(26,722)
Total comprehensive income/(loss) for the year	43,535	(89,070)
Dividend paid to non-controlling interests	(5,810)	(6,280)
Net cash inflow from operating activities	137,119	83,166
Net cash outflow from investing activities	(5,563)	(8,960)
Net cash outflow from financing activities	(105,036)	(130,796)
Net cash inflow/(outflow)	26,520	(56,590)

42. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang Energy

	2015 HK$'000	2014 HK$'000
Current assets	4,166	9,682
Non-current assets	129,502	102,408
Current liabilities	(75,076)	(49,803)
Equity attributable to the owner of the Company	41,014	43,601
Non-controlling interests	17,578	18,686
Revenue	178	244
Expenses	(291)	(64)
(Loss)/profit attributable to the owner of the Company	(79)	126
(Loss)/profit attributable to non-controlling interests	(34)	54
(Loss)/profit for the year	(113)	180
Other comprehensive loss attributable to the owner of the Company	(2,508)	(1,119)
Other comprehensive loss attributable to non-controlling interests	(1,075)	(479)
Other comprehensive loss for the year	(3,583)	(1,598)
Total comprehensive loss attributable to the owner of the Company	(2,587)	(993)
Total comprehensive loss attributable to non-controlling interests	(1,109)	(425)
Total comprehensive loss for the year	(3,696)	(1,418)
Net cash inflow/(outflow) from operating activities	27,011	(1,707)
Net cash outflow from investing activities	(33,352)	(93,195)
Net cash (outflow)/inflow from financing activities	(63)	40,413
Net cash outflow	(6,404)	(54,489)

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2015 HK$'000	2014 HK$'000
Assets		
Non-current assets		
Interests in subsidiaries	1,380,657	6,173,933
Property, plant and equipment	77	156
	1,380,734	6,174,089
Current assets		
Prepayments and other receivables	1,278	492
Cash and bank balances	573,429	244,323
	574,707	244,815
Total assets	1,955,441	6,418,904
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	242,911	242,911
Reserves	1,039,255	5,861,831
Total equity	1,282,166	6,104,742
Liabilities		
Current liabilities		
Amounts due to subsidiaries	311,084	311,089
Other payables	4,051	3,073
Derivative financial instruments	4,348	–
	319,483	314,162
Non-current liabilities		
Convertible bonds	353,792	–
Total liabilities	673,275	314,162
Total equity and liabilities	1,955,441	6,418,904
Net current assets/(liabilities)	255,224	(69,347)
Total assets less current liabilities	1,635,958	6,104,742

The Company's statement of financial position was approved and authorised for issue by the board of Directors on 30 March 2016 and signed on its behalf by:

Mr. Li Yi
Chairman

Mr. Ren Yansheng
Chief Executive Officer

43. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY (Continued)

Movement in the Company's reserves

	Share premium HK$'000	Contribution surplus HK$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 1 January 2014	6,639,269	54,045	–	(393,704)	6,299,610
Issuance of convertible bonds	–	–	383,041	–	383,041
Deferred tax of convertible bonds	–	–	(63,202)	–	(63,202)
Issuance of ordinary shares upon conversion of convertible bonds	1,524,564	–	(319,839)	–	1,204,725
Loss and total comprehensive loss for the year	–	–	–	(1,962,343)	(1,962,343)
At 31 December 2014 and 1 January 2015	8,163,833	54,045	–	(2,356,047)	5,861,831
Reduction of share premium and transfer between share premium and contributed surplus	(6,400,773)	6,400,773	–	–	–
Loss and total comprehensive loss for the year	–	–	–	(4,822,576)	(4,822,576)
At 31 December 2015	**1,763,060**	**6,454,818**	**–**	**(7,178,623)**	**1,039,255**

44. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 30 March 2016.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2015 are as follows:

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