OPEN UP NEW OPPORTUNITIES WITH INTERNATIONAL VISION

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

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

2016 ANNUAL REPORT

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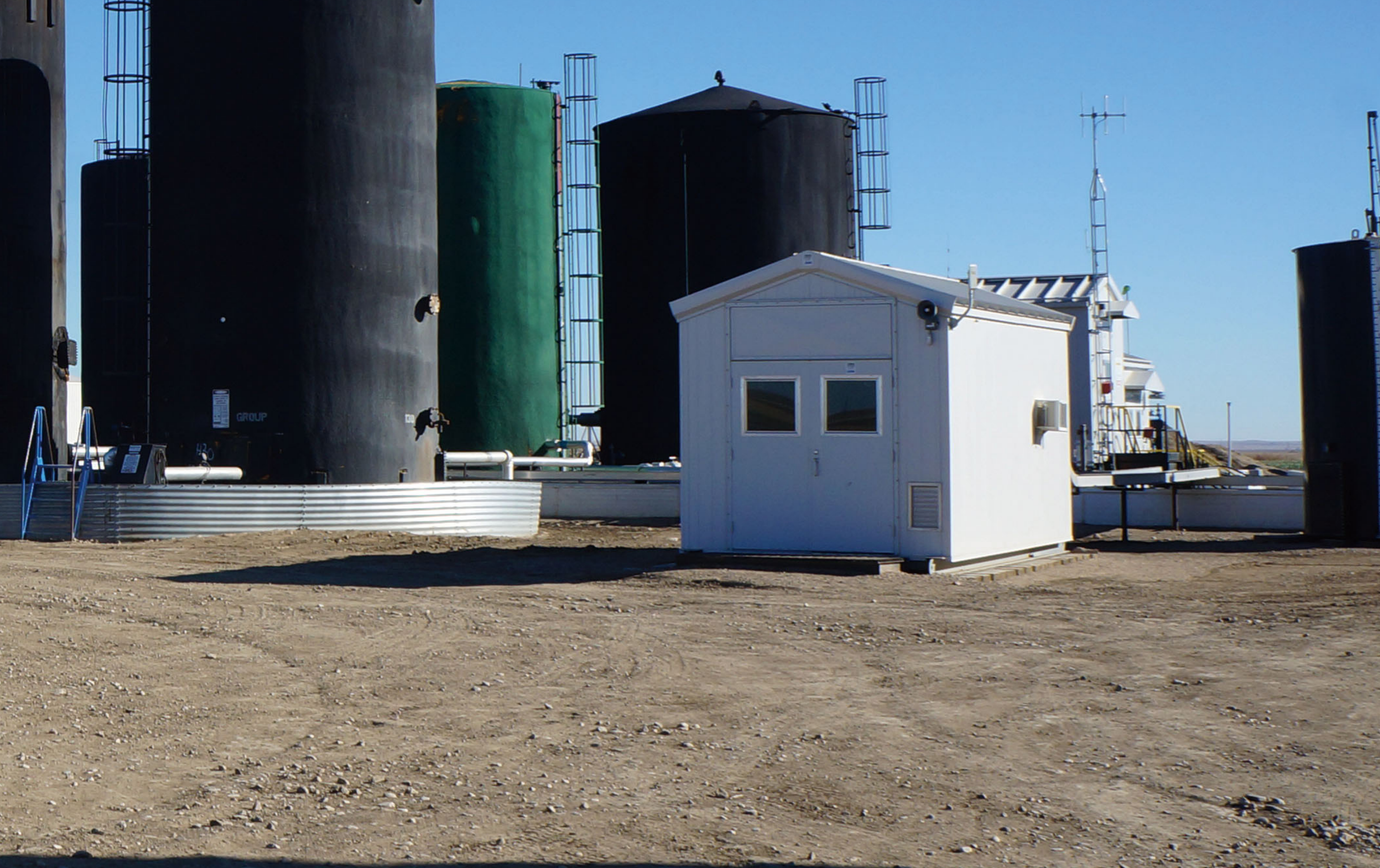


CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi *(Chairman)*
Mr. Bruno Guy Charles Deruyck *(Chief Executive Officer)*
Mr. Shen Hao
Ms. Sha Chunzhi
Mr. Li Jun
Mr. Tan Meng Seng

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. Li Yi

NOMINATION COMMITTEE

Mr. Ng Wing Ka *(Chairman)*
Mr. Sun Liming
Mr. Li Yi

AUTHORISED REPRESENTATIVES

Mr. Li Yi
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

CORPORATE INFORMATION

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

Suite 1512, 15th Floor
One Pacific Place
88 Queensway
Hong Kong

STOCK CODE

00346

WEBSITE

www.yanchangpetroleum.com

CHAIRMAN'S STATEMENT

In 2016, the Company's management facing with the market challenges of unfavourable conditions of economic slow-down and depressed oil prices, had effectively reduced Novus Energy Inc.'s ("Novus") operational and management costs for its in-production oil and gas business in Canada as well as achieved the business targets for Henan Yanchang Petroleum Sales Co. Limited ("Henan Yanchang") refined oil trading business in the People's Republic of China (the "PRC").

I. IN-PRODUCTION OIL AND GAS UPSTREAM BUSINESS IN CANADA

In 2016, the average daily production of Novus was 2,404 barrels of equivalent ("BOE"). In view of depressed oil prices, Novus strived to balance cash flow, introduced measures for cost reduction and operational efficiency enhancement. Novus also strictly controlled drilling plan and disposed certain non-core assets so as to optimise and concentrate its resources to develop core areas.

In respect of operational costs, the actual operational and transportation costs per barrel kept below the budget of CAD15.9 at CAD13.3 as a result of operational efficiency enhanced by the management. For management costs, the administrative expenses were cut down by CAD1.4 million in 2016, 22% less than the budgeted as a result of various control measures put in place by the management, such as cutting headcounts, introducing of job specialisation and reorganisation as well as reducing of office expenses and professional fees.

Amid depressed oil prices, Novus' exploration and operation department has been vigourously conducting refrac program for the existing old wells with an aim to increase production volume at a lower cost. The refrac is principally due to poor production performance of the existing old wells but good performance in surrounding wells, and those old wells are anticipated to have better performance if refrac to be in place. In 2016, refrac of 14 old wells were completed by Novus with an average daily production of 208 BOE, representing 8.6% of total average daily production per annum. As such, even if oil price was CAD5 lower than the budgeted in 2016, Novus' operating netback per barrel maintained at CAD22, better than the industry average. As at the end of 2016, the 2P reserves was 18.73 million BOE with estimated economic value of CAD250 million.

Novus expects that capital expenditure will be CAD50 million for 39 new wells under drilling plan and 26 existing wells under refrac program with estimated average daily production of 2,561 BOE in 2017. In addition to cost saving measures, Novus will flexibly adjust its drilling plan for new wells subject to oil price movement, and also focus on the refrac of existing wells to increase production volume and reserves at lower cost, aiming at enhancing Novus' value in whole and achieving an increase in average daily production to 3,300 BOE by the end of 2017.

CHAIRMAN'S STATEMENT

II. REFINED OIL TRADING DOWNSTREAM BUSINESS IN THE PRC

In 2016, sales volume of refined oil of Henan Yanchang increased by 6.7% to 4.16 million tonnes as compared to 2015, with revenue of RMB18.18 billion and operating profit of RMB18.62 million. Having been affected by economic slow-down, market price of and demand for refined oil in the PRC remained at a low level. With a comprehensive study, Henan Yanchang achieved profit maximisation as planned by fully utilising its storage capacity and expanding its oil sources and customer base, having reached its annual business targets regardless of the unfavourable economic environment.

As a bleak forecast for economic outlook in 2017, Henan Yanchang will endeavour to expand its business in addition to relentlessly keeping to budget targets. The key tasks and measures are as follows:

1. Expanding direct sales market

Launching highway sales of refined oil and setting up distribution station at each selling points along highway; and establishing railway network within and outside Henan province for selling and marketing oil products. Maximizing sales in railway network outside Henan province and undertaking fuller cooperation with parties involved to further strengthen customers' management and secure a broad customer base for increasing sales and efficiency.

2. Exploring high-value regions

Exploring high-value regions such as Yunnan, Guizhou and Sichuan, 4 customers in Sichuan, 2 customers in Chongqing and 1 customer in Yunnan have been obtained so far which laid a foundation for opening new markets in the future.

3. Liquidising oil storage assets to increase production and efficiency

Exploring further cooperation channels in respect of liquidising oil storage assets, by adopting measures thereof, such as acting as storage and distribution agent as well as partially leasing spare storage capacity, so as to increase sales and efficiency. Leveraging on the support and supplies by Shaanxi Yanchang Petroleum (Group) Co. Limited ("Yanchang Petroleum Group") complemented with quality resources at low cost provided by oil refineries in Shandong, Henan Yanchang will reduce purchase cost and storage cost.

4. Increasing efficiency through terminal network

Maximising the advantage of gas stations in operation and developing terminal network, putting greater effort on expansion of customers' base, marketing and promotion as well as seeking cooperation with other enterprises in order to secure corporate customers and identify small-to-medium customers. Meanwhile, Henan Yanchang will strive to make substantial progress in 2017 for increasing number of gas stations, establishing joint-operated gas stations and expanding terminal network to lay down concrete foundation for long-term development.

Besides, Henan Yanchang will strike to complete the final stage of construction of Xingang sub-pipeline, including procedures for environmental assessment, inspection and acceptance of individual project, post-construction assessment and corrections on findings of assessment, and target to put pipeline project in operation in second half of 2017. To cope with the development and operation of pipeline business, application for approval of environmental assessment of oil storage will be accelerated, whereas research and survey for expanding oil storage capacity will be conducted.

CHAIRMAN'S STATEMENT

III. OUTLOOK

The Company continues to maintain its business operations by cost saving and adopting efficiency enhancement measures in view of no signs of strong international oil prices rebound. The Company will seize opportunities of business expansion and protect the interests of the overseas assets under the low oil price environment. In addition, the Company will fully take advantage of its financing platform as a listed vehicle by introducing equity and strategic investors and further improving the shareholding structure of the Company. While expanding the existing business, the Company plans to expand its upstream business through asset acquisitions and organic growth, with a goal to become a medium size international oil and gas enterprise in the next five years.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on financial results

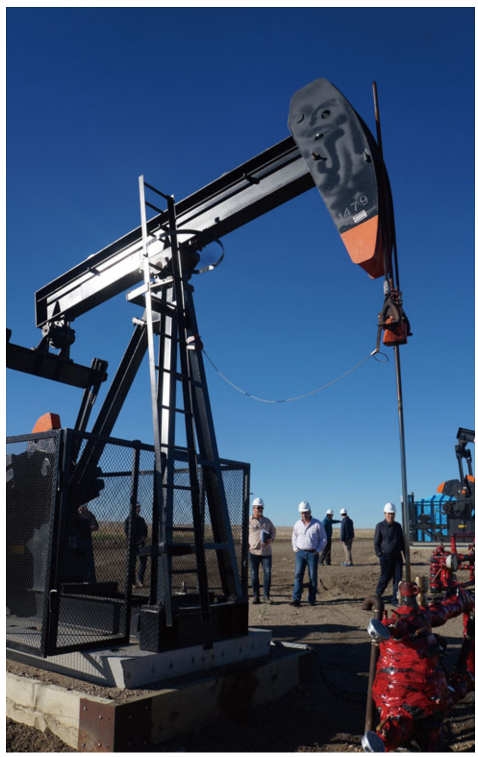
	2016 HK$'000	2015 HK$'000	Change in %
Revenue	**20,568,871**	23,320,527	(12%)
Other revenue	**12,825**	12,728	1%
Purchases	**(20,305,987)**	(22,803,665)	(11%)
Royalties	**(19,216)**	(38,719)	(50%)
Field operation expenses	**(67,169)**	(83,000)	(19%)
Exploration and evaluation expenses	**(17,581)**	(2,968)	492%
Selling and distribution expenses	**(4,241)**	(15,030)	(72%)
Administrative expenses	**(85,612)**	(92,413)	(7%)
Depreciation, depletion and amortisation	**(122,996)**	(245,818)	(50%)
Other gains and losses	**(233,138)**	(4,660,561)	(95%)
Finance costs	**(57,073)**	(33,812)	69%
Taxation	**61,025**	116,622	(48%)
Loss for the year	**(270,292)**	(4,526,109)	(94%)
Basic and diluted loss per share, HK cents	**(2.20)**	(37.41)	(94%)

Revenue and segment results

For the year under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2016, the Group's turnover was mainly derived from 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 880,000 BOE and contributed production income of HK$199,683,000 during the year under review compared to production of 1,414,000 BOE and production income of HK$371,386,000 of the previous year. Despite the sales dropped sharply as a result of persistent low oil prices and decrease in production, with more stringent cost controls and enhancement of operational efficiency, operating loss reduced to HK$37,966,000 this year as compared to HK$39,118,000 of the previous year.

Hit by the drop of refined oil prices in the PRC, the revenue of refined oil trading business of Henan Yanchang decreased by 11% from the previous year of HK$22,949,141,000 to HK$20,369,188,000 this year, nevertheless sales volume increased from the previous year of 3.9 million tonnes to the current year of 4.2 million tonnes and contributed operating profit of HK$20,851,000 to the supply and procurement business.



MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Other revenue

Apart from the aforesaid segment results, other revenue of HK$12,825,000 which mainly represented interest income from bank deposits and rental income from the PRC recorded for the year under review, remained more or less the same as the previous year.

Purchases

Purchases, decreased from the previous year of HK$22,803,665,000 to this year of HK$20,305,987,000, were wholly derived from the refined oil trading business of Henan Yanchang. The decrease of purchases was consistent with the drop in sales of refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for crude oil and natural gas production in Canada, decreased from the previous year of HK$38,719,000 to the current year of HK$19,216,000 due to drop in sales price and volume.

Field operation expenses

Due to decrease in production volume and more stringent cost control in place, field operation expenses reduced to HK$67,169,000 this year from the previous year of HK$83,000,000; which 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

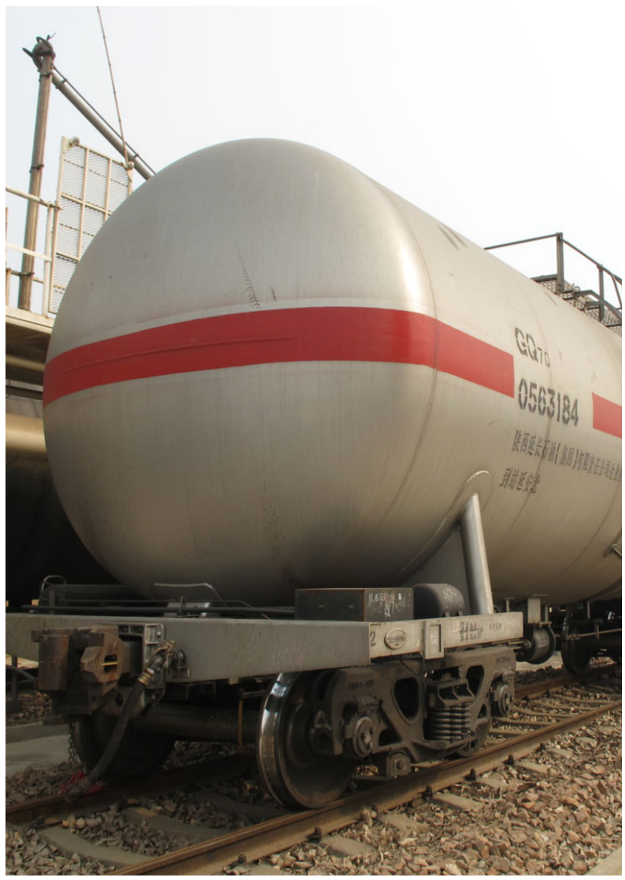
The exploration and evaluation expenses amounted to HK$17,581,000 represented the holding costs, mainly lease rentals, on the interests of non-producing lands incurred by Novus as well as the 2D seismic data processing cost incurred for the Exploration Block 3113 in Madagascar.

Selling and distribution expenses

Selling and distribution expenses, dropped from the previous year of HK$15,030,000 to the current year of HK$4,241,000. The drop of the expenses was mainly due to the truck cost savings as a result of completion on pipeline network in the previous year in the oilfields in Canada.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, decreased by HK$6,801,000 to HK$85,612,000 for the year under review.



Depreciation, depletion and amortisation

Depreciation, depletion and amortisation decreased from the previous year of HK$245,818,000 to the current year of HK$122,996,000 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$233,138,000 represented the aggregate of (i) non-cash valuation impairment made on the petroleum and natural gas properties in Canada and other oil related assets totally HK$218,732,000; (ii) written off of expired exploration and evaluation assets of HK$6,338,000; (iii) fair value loss on derivative components of convertible bonds of HK$12,992,000; (iv) loss on hedging of oil and gas commodity contracts of HK$3,081,000; and after offsetting (v) fair value gain on investment properties of HK$627,000; (vi) gain on disposal of property, plant and equipment of HK$7,362,000 and (vii) other gains of HK$16,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Finance costs

Finance costs amounted to HK$57,073,000 comprised (i) bank borrowing costs of HK$18,997,000 included interest, commitment fees, standby charges, and other expenses related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$2,241,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) imputed interest on convertible bonds of HK$35,835,000 arisen from the issue of 3-year convertible bonds with principal amount of US$46,300,000.

Taxation

Net tax income of HK$61,025,000 represented the aggregate of (i) provision for Canada resources surcharge on Novus' production revenue of oil and gas amounted to HK$2,731,000; (ii) provision for the PRC enterprise income tax on the profit earned from refined oil trading business of Henan Yanchang amounted to HK$8,270,000; and after offsetting (iii) net deferred tax write-back amounted to HK$72,026,000.

Loss for the year

In addition to the non-cash impact related to impairment of oil and gas assets amounted to HK$159,423,000 resulting from low international crude oil price, there incurred the interest expense and the non-cash fair value loss amounted to HK$48,827,000 arisen from the convertible bonds issued in the previous year for the development of the Group's business. As a result, the Group recorded a loss of HK$270,292,000 for the year under review.

The recognition of the impairment loss on oil and gas assets and the fair value loss on convertible bonds are non-cash in nature and therefore will not have material negative impact on the cash flow and operation of the Group. Excluding the impacts of the impairment loss and the convertible bonds, the Group recorded an operation loss of around HK$62,042,000 for the year ended 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Highlights on financial position

	2016 HK$'000	2015 HK$'000	Change in %
Property, plant and equipment	**1,690,356**	1,878,740	(10%)
Prepaid lease payments	**16,124**	17,538	(8%)
Investment properties	**28,970**	29,458	(2%)
Intangible asset	**6,731**	47,848	(86%)
Exploration and evaluation assets	**27,566**	46,258	(40%)
Goodwill	**51,418**	51,418	–
Inventories	**8,441**	29,347	(71%)
Trade receivables	**24,122**	236,784	(90%)
Prepayments, deposits and other receivables	**107,584**	115,412	(7%)
Cash and bank balances	**610,283**	886,690	(31%)
Derivative financial instruments	**(967)**	(4,383)	(78%)
Trade and other payables	**(364,175)**	(467,392)	(22%)
Bank borrowings	**(269,055)**	(664,085)	(59%)
Convertible bonds	**(366,303)**	(353,792)	4%
Decommissioning liabilities	**(102,371)**	(91,060)	12%

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 made on petroleum and natural gas properties of Novus in Canada.

Prepaid lease payments

Prepaid lease payments represented the leasehold lands in the PRC owned by the Group. The decrease in the amount represented mainly the yearly amortisation.

Investment properties

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

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Intangible asset

Intangible asset amounted to HK$6,731,000 as at 31 December 2016 represented the valuation and recognition of a supply agreement renewable in every 3-year period on an ongoing basis signed with 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.

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$38,779,000 on the refined oil supply agreement has been made for the year ended 31 December 2016 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 20.1%. 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 with terminal value.

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

Exploration and evaluation assets

Exploration and evaluation assets mainly represented the undeveloped land owned by Novus as at 31 December 2016.

Goodwill

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

Inventories

Inventories represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW (Continued)

Trade receivables

Trade receivables represented account receivables from customers of oil and gas production business of Novus in Canada as at 31 December 2016.

Prepayments, deposits and other receivables

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

Cash and bank balances

As at 31 December 2016, cash and bank balances decreased by HK$276,407,000 to HK$610,283,000, as compared to the previous year of HK$886,690,000, was mainly due to repayment of bank borrowing by Novus during the year.

Derivative financial instruments

The amount represented the fair value 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 prepayments received in advance from customers of Henan Yanchang's refined oil trading business as at 31 December 2016.

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 7% issued in December 2015 and matured in December 2018.

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.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the year ended 31 December 2016.

	2016 HK$'000	2015 HK$'000
Current assets	**750,430**	1,273,914
Total assets	**2,642,220**	3,345,174
Current liabilities	**635,048**	1,135,860
Total liabilities	**1,117,910**	1,597,267
Total equity	**1,524,310**	1,747,907
Gearing ratio	**73.3%**	91.4%
Current ratio	**118.2%**	112.2%

The Group had outstanding variable interest rates bank borrowings amounted to HK$269,055,000 as at 31 December 2016 (31 December 2015: HK$664,085,000) which comprised (i) HK$55,565,000 (equivalent to RMB50,000,000) under Henan Yanchang and (ii) HK$213,490,000 (equivalent to CAD37,000,000) under Novus. The Group has obtained bank facilities of HK$555,650,000 (equivalent to RMB500,000,000) from banks in the PRC and of HK$242,340,000 (equivalent to CAD42,000,000) from a bank in Canada.

On 23 December 2015, the Company raised fund from the issue of convertible bonds to China Construction Bank Corporation in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 7% and matures on the third anniversary date from the date of issue. The fund raised had been used for the Group's general working capital. The whole principal amount of convertible bonds was still outstanding as at 31 December 2016.

As at 31 December 2016, the Group has cash and bank balances of HK$610,283,000 (31 December 2015: HK$886,690,000). In view of sufficient cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

As at 31 December 2016, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, improved to 73.3% as compared to 91.4% of the previous year. The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood healthy at 118.2%, similar to that of the previous year, as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. During the year ended 31 December 2016, Novus had entered thirteen 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 bank 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 minimise currency risks, therefore the Group does not anticipate any material foreign exchange exposures and risks.

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

MATERIAL ACQUISITIONS AND DISPOSALS

The Group had no material acquisitions and disposals for the year ended 31 December 2016.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2016.

CAPITAL COMMITMENTS

As at 31 December 2016, the Group had committed to property, plant and equipment amounted to HK$18,814,000 (31 December 2015: HK$19,331,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2016.

MANAGEMENT DISCUSSION AND ANALYSIS

PLEDGE OF ASSETS

The Group's CAD42,000,000 (31 December 2015: CAD125,000,000) 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 CAD200,000,000 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 2015: Nil).

CONTINGENT LIABILITIES

As at 31 December 2016, the Group did not have any significant contingent liabilities (31 December 2015: Nil).

LITIGATION

As at 31 December 2016, the Group had no material litigation (31 December 2015: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2016, the Group's total number of staff was 130 (2015: 132). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2016 amounted to HK$55,340,000 (2015: HK$57,733,000). 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 etc. There is also a share option scheme offered to employees and eligible participants. 12,000,000 share options were granted to a director under the Company's share option scheme during the year ended 31 December 2016 (31 December 2015: Nil).

DIVIDENDS

The board (the "Board") of directors (the "Director(s)") of the Company does not recommend the payment of any dividends for the year ended 31 December 2016 (31 December 2015: 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 2016 and 2015.

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 Rules Governing the Listing of Securities (the "Listing Rules") on The Stock Exchange of Hong Kong Limited (the "Stock Exchange").

A. INFORMATION ON CRUDE OIL AND NATURAL GAS RESERVES

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

Reported total reserves are estimated by deterministic or probabilistic methods 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 2016 and its opinion that the reserve estimates are reasonable.

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 2016	11,361.6	17,090.0	14,209.9
Acquisition	368.6	779.0	498.4
Production	(688.9)	(1,163.0)	(882.7)
Disposals	(1,111.5)	–	(1,111.5)
Discoveries & revisions	(224.7)	(1,180.0)	(421.3)
At 31 December 2016	9,705.1	15,526.0	12,292.8

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

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

Net probable reserves	Canada Oil and natural gas liquids (Mbbl)	Natural gas (MMcf)	Total (Mboe)
At 1 January 2016	6,378.7	9,791.0	8,010.6
Acquisition	214.2	484.0	294.8
Disposals	(859.1)	–	(859.1)
Discoveries & revisions	(709.6)	(1,796.0)	(1,008.9)
At 31 December 2016	5,024.2	8,479.0	6,437.4

Net proved + probable reserves	Canada Oil and natural gas liquids (Mbbl)	Natural gas (MMcf)	Total (Mboe)
At 1 January 2016	17,740.3	26,881.0	22,220.5
Acquisition	582.8	1,263.0	793.2
Production	(688.9)	(1,163.0)	(882.7)
Disposals	(1,970.6)	–	(1,970.6)
Discoveries & revisions	(934.3)	(2,976.0)	(1,430.2)
At 31 December 2016	14,729.3	24,005.0	18,730.2

Notes:

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

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

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

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

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	**Madagascar**
Exploration activities:	Nil	Nil
Development activities:	6 wells drilled 6 wells completed 14 wells refracted	Nil
Production activities:	Average daily net production Oil: 1,890 bbls Gas: 3,085 mcf	Nil

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

The following table summarized the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2016:

	Canada HK$'000	**Madagascar** HK$'000	**Total** HK$'000
Exploration costs	4,994	14,495	19,489
Developments costs	96,309	–	96,309
Production costs *(note)*	67,169	–	67,169

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 53, was appointed as an executive Director and Chairman of the Board on 12 January 2016. He was also appointed as the authorized representative of the Company and a member of each of the remuneration committee and the nomination committee of the Company on 2 December 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. Bruno Guy Charles Deruyck

Aged 61, was appointed as an executive Director and the Chief Executive Officer of the Company on 1 October 2016 had worked for Schlumberger Group ("Schlumberger Group") (the world's largest oilfield services group) from April 1982 to July 1996 and then from April 2009 until September 2016. The latest position he held in Schlumberger Group was the vice president for Business Development and New Ventures (Schlumberger Project Management (SPM) division, London and Dubai). He was responsible for assembling and managing a large, worldwide expert team, including business development and asset evaluation specialists; setting up the business development process, from opportunity screening to final decision of Investment Committee; and providing for risk management and eventual auditing. He was also responsible for the development of partnerships with financial and industrial institutions in order to widen financial capabilities and capture market share. Mr. Deruyck also led the growth of this segment which undertook various production service contracts. Highlights include a 10 fold growth of production under management from 20,000 to 200,000 boe (barrel of equivalent) per day, the establishment of production service contracts in South America with various projects in Mexico and the large Shushufindi field in Ecuador, and the creation of a successful joint venture in China which undertook the development of Yanchang Petroleum Yanbei field based on the most advanced technology for tight gas field development.

During the period from July 1996 to March 2009, Mr. Deruyck had been employed by Perenco Group ("Perenco Group"), Paris and London (a Eurpoean private exploration and production company). He held various managerial roles, including technical, operational and business development. As asset evaluation manager and eventually vice president for Business Development, he contributed to Perenco Group's remarkable growth, from 60,000 to 300,000 boe (barrel of equivalent) per day, redeveloping mature fields and bringing on stream marginal discoveries. In that role as well as in his position of vice president for Exploration and Production for Middle East and North Africa, he helped Perenco Group gaining its reputation of a reliable business partner and a competent operator.

Mr. Deruyck holds a Mechanical Engineering degree from the Ecole Centrale de Lyon, France and a Master of Science degree in Petroleum Engineering from the Stanford University, United States. With his international exposure and 35 years' career at Schlumberger Group and Perenco Group, from technical to managerial roles in business development and operations, Mr. Deruyck brings a wide exploration and production industry perspective. He is a keen pioneer of new concepts, both technical and commercial, with a track record of getting together elite teams to develop businesses and set up new ventures. He has a solid technical background and the management skills to go from start up to final success.

Mr. Deruyck is also currently a director and the chief executive officer of each of the two subsidiaries of the Company, namely Yanchang International (Canada) Limited ("YC Canada") and Novus. Save as the aforesaid, Mr. Deruyck did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS (Continued)

Mr. Shen Hao

Aged 63, 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. Save as the aforesaid, Mr. Shen did not hold any directorship in other listed companies during the past three years.

Ms. Sha Chunzhi

Aged 44, was appointed as an executive Director on 2 December 2016. Ms. Sha joined the Financial Company of Yanchang Petroleum Group since September 2013, and is currently the chairman, general manager and the deputy secretary of the Party Committee of the Financial Company. During the period from January 1997 to May 2009, Ms. Sha had took up the position as deputy branch manager and then branch manager of different branches at the Xian City Commercial Bank (西安市商業銀行). And then later she worked for Chang'an Bank, Xian City (西安市長安銀行) during the period from May 2009 to September 2013, where she attained the latest promoted position as the general manager of the Accounts Settlement Department. Ms. Sha obtained a master degree in engineer and is also an economist. Ms. Sha is knowledgeable, possesses extensive experience in management and leadership, and competent in organization and coordination skills. She is also well experienced in the banking and finance industry and familiar with the financial policies, rules and regulations of China, and good at the areas of capital and financial management. Besides, Ms. Sha had participated in the work of corporate establishment for various banks and financial institutions, with sound management experience in determining the business framework and setting up operational procedures and mechanism for corporations. Save as the aforesaid, Ms. Sha did not hold any directorship in other listed companies during the past three years.

Mr. Li Jun

Aged 39, 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 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS (Continued)

Mr. Tan Meng Seng

Aged 45, was appointed as an executive Director on 2 December 2016. Mr. Tan had worked for the Schlumberger Group (the world's largest oilfield services group) since June 1996 until April 2015. During his tenure of office in the Schlumberger Group, Mr. Tan had worked for different subsidiaries and joint venture companies globally under the Schlumberger Group. The latest position he held in the Schlumberger Group was the Business Development Manager for business development of Integrated Project Management ("IPM") well production and intervention services for Asia under Schlumberger IPM Asia division. Mr. Tan started his career in the Schlumberger Group as field engineer and gradually promoted to Operations Manager in various offshore and onshore oil and gas projects located worldwide (including Malaysia, Brunei, Philippines, Sakhalin Island in Russia, Vietnam, Gabon in West Africa, China, Japan, Korea, etc), developed strong technical and project management skills. Mr. Tan also worked as a key member of the China Strategy Group of Schlumberger China, successfully developed strategy for Schlumberger China to grow the Well Services segment and develop the IPM/SPM market in China.

During the period from October 2010 to December 2014, Mr. Tan successfully established a joint venture company of the Schlumberger Group in China (the "JV Company"), engaged in provision of integrated services to develop oil and gas fields in the high volume market and acted as the General Manager of the JV Company. He successfully grew the JV Company with 5-fold increase in revenue to approximately 220 million USD within four years from start-up, and successfully secured projects such as a tight gas greenfield development project in Ordos Basin as well as a full IPM shale gas project in Sichuan Basin. Mr. Tan managed a large portfolio of employees and contractors with various background, demonstrated strong communication and management skills.

After leaving the Schlumberger Group in April 2015, Mr. Tan joined an Argentina company, as the Vice President of Petro AP (HK) Company Limited ("Petro AP") and the General Manager of Petro AP SA in Argentina during the period from May 2015 to November 2016, responsible for overall exploration and production operations in Argentina, and assisting the President at headquarter in strategic planning and development of the company.

Mr. Tan holds a First Class Honor Degree in Chemical Engineering from the University Technology of Malaysia and completed the Strategic Finance Program at IMD Switzerland, a worldwide top-ranked business school. With his international exposure and 20 years' career at the Schlumberger Group and Petro AP, from technical to managerial roles in business development and operations, Mr. Tan brings a wide strategic exploration and production industry perspective.

Save as the aforesaid, Mr. Tan did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Ka

Aged 47, 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) and has been appointed as an independent non-executive director of Catalo Natural Health Limited on 3 March 2017. He has been elected as a member of the legislative council (Industrial (second) Functional Constituency) on 4 September 2016. 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 42, 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 16 years' experience in financial management, accounting and auditing. Mr. Leung is currently employed as the chief financial officer of Extend Corporation Limited ("ECL") which is engaged in mold fabrication, manufacture of plastic molded parts and provision of plastic components assembling services. Mr. Leung was responsible for the preparation of ECL's financial statements as well as the review and development of the effective financial policies and control procedures in ECL. Mr. Leung has also been appointed as an independent non-executive director of Interactive Entertainment China Cultural Technology Investments Limited (a company listed on the Stock Exchange) since 18 May 2016. Save as the aforesaid, Mr. Leung did not hold any directorship in other listed companies in the past three years.

Mr. Sun Liming

Aged 63, 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. Save as the aforesaid, Mr. Sun did not hold any directorship in other listed companies during the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Dr. Mu Guodong

Aged 59, 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, 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 招商金葵資本管理有限責任公司 (China Merchants Jinkui Capital Management Company 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 for more than 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. Save as the aforesaid, Dr. Mu did not hold any directorship in other listed companies during the past three years.

COMPANY SECRETARY

Mr. Law Hing Lam

Aged 53, was appointed as the company secretary of the Company on 21 March 2011. Mr. Law is a member of the Hong Kong Institute of Certified Public Accountants and also a member of the American Institute of Certified Public Accountants. Mr. Law has extensive experience in accounting, auditing and finance. He is also currently the chief financial officer and an authorised representative of the Company, as well as 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 2016.

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 4 to 6 and the Management Discussion and Analysis section on pages 7 to 17 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 2016 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 2016 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 53 to 147. The state of affairs of the Company on 31 December 2016 is set out in Note 42 to the consolidated financial statements.

The Directors do not recommend the payment of any dividend in respect of the year (2015: Nil).

SUMMARY OF FINANCIAL INFORMATION

The following is a summary of the 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				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**20,568,871**	23,320,527	22,346,997	19,354,899	7,572,880
(Loss)/profit before taxation	**(331,317)**	(4,642,731)	(4,621,681)	78,108	(75,468)
Taxation	**61,025**	116,622	(36,744)	(25,274)	(1,785)
(Loss)/profit for the year	**(270,292)**	(4,526,109)	(4,658,425)	52,834	(77,253)
(Loss)/profit for the year attributable to					
– Owners of the Company	**(267,722)**	(4,544,205)	(4,634,817)	30,920	(77,656)
– Non-controlling interests	**(2,570)**	18,096	(23,608)	21,914	403
	(270,292)	(4,526,109)	(4,658,425)	52,834	(77,253)

REPORT OF THE DIRECTORS

SUMMARY OF FINANCIAL INFORMATION (Continued)

Assets and liabilities

	At 31 December				
	2016	2015	2014	2013	2012
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**1,891,790**	2,071,260	7,272,376	9,346,385	9,303,904
Current assets	**750,430**	1,273,914	1,018,410	1,007,356	975,623
Total assets	**2,642,220**	3,345,174	8,290,786	10,353,741	10,279,527
Current liabilities	**(635,048)**	(1,135,860)	(1,402,175)	(481,831)	(491,922)
Non-current liabilities	**(482,862)**	(461,407)	(302,701)	(85,560)	(84,881)
Total liabilities	**(1,117,910)**	(1,597,267)	(1,704,876)	(567,391)	(576,803)
Total equity	**1,524,310**	1,747,907	6,585,910	9,786,350	9,702,724

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 pages 56 and 57.

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 2016, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, is the sum of the Company's share premium, contributed surplus and accumulated losses as stated in Note 42 to the consolidated financial statements which may only be distributed in certain circumstances.

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 78.1% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 26.8%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 54.0% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 16.8%.

As far as the Directors are aware, 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 40 to the consolidated financial statements.

PENSION SCHEMES AND COSTS

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

At 31 December 2016, 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. Bruno Guy Charles Deruyck *(Chief Executive Officer) (appointed on 1 October 2016)*
Mr. Shen Hao
Ms. Sha Chunzhi *(appointed on 2 December 2016)*
Mr. Li Jun *(appointed on 12 January 2016)*
Mr. Tan Meng Seng *(appointed on 2 December 2016)*
Mr. Zhang Kaiyong *(Chairman) (resigned on 12 January 2016)*
Mr. Zhao Jie *(resigned on 12 January 2016)*
Mr. Ren Yansheng *(Chief Executive Officer) (resigned on 2 July 2016)*
Mr. Hui Bo *(Vice President) (resigned on 2 December 2016)*
Mr. Feng Dawei *(resigned on 2 December 2016)*
Mr. Andres Pena Salceda *(resigned on 2 December 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. Bruno Guy Charles Deruyck, Ms. Sha Chunzhi and Mr. Tan Meng Seng are subject to re-election at the forthcoming annual general meeting ("2017 AGM") of the Company.

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Shen Hao, Mr. Ng Wing Ka and Mr. Sun Liming will retire by rotation and, being eligible, offer themselves for re-election at the 2017 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 21 to 25 of the annual report.

DIRECTORS' SERVICE CONTRACTS

Each of the executive Directors has entered into a service contract with the Company for 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 2017 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.

REPORT OF THE DIRECTORS

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 40 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 2016, 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:

REPORT OF THE DIRECTORS

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
Mr. Bruno Guy Charles Deruyck ("Mr. Deruyck")	Personal interest *(Note 1)*	Long position	12,000,000	0.099%
Mr. Sun Liming	Personal interest	Long position	600,000	0.005%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse *(Note 2)*	Long position	300,000	0.002%

Note 1: 12,000,000 share options were granted to Mr. Deruyck on 18 October 2016. Mr. Deruyck is deemed to be interested in these 12,000,000 shares under the SFO.

Note 2: 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 2016, 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.

REPORT OF THE DIRECTORS

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.

12,000,000 share options were granted to a Director under the Scheme during the year ended 31 December 2016 details as follows:

Grantee	Date of grant	Exercise period	Exercise price	At 1 January 2016	Granted during the year	Exercised during the year	At 31 December 2016
Executive Director							
Mr. Bruno Guy Charles Deruyck	18/10/2016	1/10/2017-30/9/2026	0.221	–	12,000,000	–	12,000,000

EQUITY-LINKED AGREEMENTS

In 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 7% 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. Pursuant to the terms and conditions of the instrument executed by way of deed poll by the Company on 23 December 2015 constituting the convertible bonds, the conversion price of the convertible bonds was adjusted to HK$0.36 per Share with effect from 23 December 2016. Following the said adjustment to the conversion price, a total number of 996,736,111 shares will be issued upon full conversion of the convertible bonds

The fund raised had been used for the Group's general working capital. 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$0.36, 996,736,111 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 2016.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2016, 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	996,736,111	8.21%
Central Huijin Investment Ltd. ("Central Huijin") *(Note 2)*	Interest of controlled corporation	Long position	996,736,111	8.21%

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 996,736,111 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.

Pursuant to the terms and conditions of the instrument executed by way of deed poll by the Company on 23 December 2015 constituting the Convertible Bonds, the conversion price of the Convertible Bonds was adjusted to HK$0.36 per Share with effect from 23 December 2016. Following the said adjustment to the conversion price, a total number of 996,736,111 shares will be issued upon full conversion of the Convertible Bonds (an increase of 99,673,611 shares from the original 897,062,500 shares based on the initial conversion price of HK$0.40 per conversion share).

CCBC and Central Huijin respectively and beneficially 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 996,736,111 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 2016.

REPORT OF THE DIRECTORS

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) entered into a supply agreement dated 24 December 2013 (the "Supply Agreement"), pursuant to which Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase refined oil for the three years ended 31 December 2016. Further details of the transactions are included in Note 40 to the consolidated financial statements.

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

(1) The aggregate value of the continuing connected transactions contemplated under the Supply Agreement for the year ended 31 December 2016 as indicated above did not exceed the 2016 annual cap amount of RMB18,000,000,000 (equivalent to approximately HK$20,158,200,000); and

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

On 30 December 2016, Henan Yanchang and Yanchang Petroleum Group entered into a new supply agreement pursuant to which Yanchang Petroleum Group will continue to supply the refined oil to Henan Yanchang for the three years ending 31 December 2019, with an annual cap of each of the three years at RMB5,000,000,000 (equivalent to approximately HK$5,599,500,000).

EVENTS AFTER THE REPORTING PERIOD

There were no significant events occurred 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 2016.

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 36 to 46.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2016 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 22 May 2017 to 25 May 2017 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the 2017 AGM of the Company to be held on 25 May 2017, 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 19 May 2017.

AUDITORS

A resolution will be proposed at the 2017 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 2017

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 2016, 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.2.1 of the CG Code provides that the roles of chairman and chief executive should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was temporarily vacant following the resignation of Mr. Ren Yansheng as an executive Director and chief executive officer on 2 July 2016 as the company needs times to identify a suitable candidate to assume the role of the chief executive officer. On 1 October 2016, Mr. Bruno Guy Charles Deruyck was appointed as an executive Director and chief executive officer of the Company, and the said code provision A.2.1 has been complied with since then.

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 2016.

BOARD OF DIRECTORS

Board Composition

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

(a) six executive Directors, namely Mr. Li Yi (Chairman), Mr. Bruno Guy Charles Deruyck (Chief Executive Officer), Mr. Shen Hao, Ms. Sha Chunzhi, Mr. Li Jun and Mr. Tan Meng Seng; 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 with 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.

CORPORATE GOVERNANCE 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 CG 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.

CORPORATE GOVERNANCE REPORT

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 Director or his/her respective close 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 shall be 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 shall be 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; and (ii) Risk Management and Internal Control Systems for listed issuers. 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 three 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 2016.

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, 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.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year ended 31 December 2016, the Audit Committee held four meetings. At the meetings, the committee reviewed (i) the amendments to the Listing Rules relating to the CG Code and the Corporate Governance Report; (ii) profit warning announcement in relation to the financial year ended 31 December 2015; and (iii) the annual results for the year ended 31 December 2015 and the interim results for the period ended 30 June 2016; 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. Li Yi. 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 2016, the Remuneration Committee held 5 meetings. At the meetings, the committee reviewed and approved (i) the remuneration of proposed chairman of the Board and the newly appointed executive Directors; (ii) the existing remuneration package of all Directors and the senior management; and (ii) proposed grant of share options to the new Chief Executive Officer of the Company.

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. Li Yi. 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 2016, the Nomination Committee held 4 meetings. At the meetings, the committee (i) discussed and approved the nomination of the proposed chairman of the Board, the Chief Executive Officer and the newly appointed executive Directors and the renewal of service contracts for the Directors; and (ii) 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 2016 annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

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 2016 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)*	9/9	–	–	–
Mr. Bruno Guy Charles Deruyck *(appointed on 1 October 2016)*	2/2	–	–	–
Mr. Shen Hao	1/11	–	–	–
Ms. Sha Chunzhi *(appointed on 2 December 2016)*	0/0	–	–	–
Mr. Li Jun *(appointed on 12 January 2016)*	5/9	–	–	–
Mr. Tan Meng Seng *(appointed on 2 December 2016)*	0/0	–	–	–
Mr. Zhang Kaiyong *(resigned on 12 January 2016)*	2/2	–	–	–
Mr. Zhao Jie *(resigned on 12 January 2016)*	0/0	–	–	–
Mr. Ren Yansheng *(resigned on 2 July 2016)*	7/7	–	–	–
Mr. Hui Bo *(resigned on 2 December 2016)*	4/11	–	5/5	4/4
Mr. Feng Dawei *(resigned on 2 December 2016)*	0/11	–	–	–
Mr. Andres Pena Salceda *(resigned on 2 December 2016)*	3/11	–	–	–
Independent Non-executive Directors:				
Mr. Ng Wing Ka	11/11	4/4	–	4/4
Mr. Leung Ting Yuk	11/11	4/4	5/5	–
Mr. Sun Liming	11/11	4/4	5/5	4/4
Dr. Mu Guodong	10/11	–	–	–

AUDITORS' REMUNERATION

Auditors' remuneration for the year ended 31 December 2016 amounted to a total of HK$1,912,000, of which HK$1,900,000 was incurred for audit service and HK$12,000 for non-audit services, including the taxation services.

CORPORATE GOVERNANCE REPORT

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 25 of the annual report.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2016 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 47 and 52.

SHAREHOLDERS' RIGHTS

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

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

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

CORPORATE GOVERNANCE REPORT

SHAREHOLDERS' RIGHTS (Continued)

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

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

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

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

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

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

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

CONSTITUTIONAL DOCUMENTS

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

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL

The management has the responsibility to maintain appropriate and effective risk management and internal control systems, and the Board has the responsibility review and monitor the effectiveness of the Group's risk management and internal control systems at least annually covering material controls, including financial, operational and compliance controls, to ensure that the systems in place are adequate and effective.

The Company has conducted an annual review on whether there is a need for an internal audit department. Given the Group's corporate and operation structure, as opposed to diverting resources to establish a separate internal audit department, the Board, supported by the Audit Committee, is directly responsible for risk management and internal control systems of the Group and for reviewing its effectiveness.

The Group adopts a risk management system which manages the risk associated with its business and operations. The system comprises the following phases:

- Identification: Identify ownership of risks, business objectives and risks that could affect the achievement of objectives.
- Evaluation: Analyse the likelihood and impact of risks and evaluate the risk portfolio accordingly.
- Management: Consider the risk responses, ensure effective communication to the Board and ongoing monitor the residual risks.

The Group has in place risk management and internal control systems which adopts The Committee of Sponsoring Organizations of the Treadway Commission 2013 ("COSO") framework. The COSO framework enables the Group to achieve objectives regarding effectiveness and efficiency of operations, reliability of financial reporting and compliance with applicable laws and regulations. The five key components of the COSO framework are elaborated as follows:

- Control Environment: A set of standards, processes and structures that provide the basis for carrying out internal control across the Group.
- Risk Assessment: A dynamic and iterative process for identifying and analysing risks to achieve the Group's objectives, forming a basis for determining how risks should be managed.
- Control Activities: Action established by policies and procedures to help ensure that management directives to mitigate risks to the achievement of objectives are carried out.
- Information and Communication: Internal and external communication to provide the Group with the information needed to carry out day-to-day controls.
- Monitoring: Ongoing and separate evaluations to ascertain whether each component of internal control is present and functioning.

CORPORATE GOVERNANCE REPORT

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

The Group's risk management and internal control systems are, however, designed to manage and minimise rather than eliminate the risk of failure to achieve business objectives, and can only provide reasonable and not absolute assurance against material misstatement or loss.

The Company engaged external independent consultants with professional staff in possession of relevant expertise to conduct an independent review of the risk management and internal control systems of the Group annually in order to maintain high standards of corporate governance. The review plan has been approved by the Board and its Audit Committee. The Board and its Audit Committee has also reviewed the resources, staff qualifications and experience, training programs and budget of the Company's accounting, internal audit and financial reporting functions and considered they are adequate and sufficient.

With respect to procedures and internal controls for the handling and dissemination of inside information, the Company is aware of the relevant obligations under the SFO and the Listing Rules.

In order to enhance the Group's system of handling inside information, and to ensure the truthfulness, accuracy, completeness and timeliness of its public disclosures, the Group also adopts and implements an inside information policy and procedures. Certain reasonable measures have been taken from time to time to ensure that proper safeguards exist to prevent a breach of a disclosure requirement in relation to the Group, which include:

- The access of information is restricted to a limited number of employees on a need-to-know basis. Employees who are in possession of inside information are fully conversant with their obligations to preserve confidentiality.

- Confidentiality covenants will be in place when the Group enters into significant negotiations.

In addition, all employees are required to strictly adhere to the rules and regulations regarding the management of inside information, including that all employees who, because of his/her office or employment, is likely to be in possession of inside information in relation to the Company, are required to comply with the securities transaction rules adopted by the Company which are on terms no less exacting than those required under the Listing Rules.

The Board and its Audit Committee had reviewed the adequacy and effectiveness of the Group's risk management and internal control systems annually. Several areas have been considered during such reviews, which include but not limited to (i) the changes in the nature and extent of significant risks since the last annual review, and the Group's ability to respond to changes in its business and the external environment; and (ii) the scope and quality of management's ongoing monitoring of risks and of the internal control systems. Having confirmed by the management, the Board and its Audit Committee were not aware of any material internal control defects, and considered such systems effective and adequate throughout the period under review.

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)

OPINION

We have audited the consolidated financial statements of Yanchang Petroleum International Limited and its subsidiaries (collectively referred to as "the Group") set out on pages 53 to 147, which comprise the consolidated statement of financial position as at 31 December 2016, 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 notes to the consolidated financial statements, including a summary of significant accounting policies.

In our opinion, the consolidated financial statements give a true and fair view of the consolidated financial position of the Group as at 31 December 2016, and of its consolidated financial performance and its consolidated cash flows for the year then ended in accordance with Hong Kong Financial Reporting Standards ("HKFRSs") issued by the Hong Kong Institute of Certified Public Accountants ("HKICPA") and have been properly prepared in compliance with the disclosure requirements of the Hong Kong Companies Ordinance.

BASIS FOR OPINION

We conducted our audit in accordance with Hong Kong Standards on Auditing ("HKSAs") issued by the HKICPA. Our responsibilities under those standards are further described in the Auditors' Responsibilities for the Audit of the Consolidated Financial Statements section of our report. We are independent of the Group in accordance with the HKICPA's Code of Ethics for Professional Accountants ("the Code"), and we have fulfilled our other ethical responsibilities in accordance with the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgment, were of most significance in our audit of the consolidated financial statements of the current period. These matters were addressed in the context of our audit of the consolidated financial statements as a whole, and in forming our opinion thereon, and we do not provide a separate opinion on these matters.

Key audit matter	How our audit addressed the key audit matter

Impairment of petroleum and natural gas properties

Refer to Notes 4 and 17 to the consolidated financial statements and the accounting policies in Note 3 to the consolidated financial statements.

The Group's petroleum and natural gas properties are aggregated into different cash-generating units ("CGUs"), based on management's judgement in defining the smallest identifiable group of assets. The recoverable amount of each CGU was determined on the basis of value in use calculations based on certain assumptions. The Group is required to annually test the amount of petroleum and natural gas properties for impairment.

We focused on this area due to the level of the subjectivity associated with the assumptions used in estimating the value-in-use of the CGUs, including the future cash flow projections based on the drilling proposals on proved and probable reserves, the growth rates and discount rates applied.

Our procedures in relation to the management's impairment assessment of petroleum and natural gas properties included:

- Evaluating the assumptions and methodologies used by the Group in performing the impairment assessment, in particular those relating to the future cash flow projection based on the drilling proposals on proved and probable reserves, the growth rates and discount rates applied;
- Assessing the methodology adopted in, and tested mathematical accuracy of, the discounted cash flow projections;
- Assessing the appropriateness of the other key assumptions, such as the growth rates of oil and natural gas prices used to extrapolate the cash flows and the discount rates applied by comparing against external economic and market data; and
- Reviewing management's sensitivity analysis and tested independently those assumptions to which the outcome of the impairment test is most sensitive.

We consider the management conclusion to be consistent with the available information.

INDEPENDENT AUDITORS' REPORT

KEY AUDIT MATTERS (Continued)

Key audit matter	How our audit addressed the key audit matter

Decommissioning liabilities

Refer to Notes 4 and 34 to the consolidated financial statements and the accounting policies in Note 3 to the consolidated financial statements.

The Group's decommissioning liabilities were carried at HK$102,371,000 as at 31 December 2016.

Provisions for decommissioning liabilities are a judgmental area as they include assumptions around estimated decommissioning costs, timing of the decommissioning, inflation rate, discount rates and the economic life of a field, which in turn will depend on factors such as oil price and operating costs.

Our procedures in relation to the assessment of the appropriateness of the key assumptions underlying the calculation of decommissioning liabilities including:

- Obtaining an understanding of the management's estimates;
- Obtaining supporting evidence for any material revisions in cost estimates during the year;
- Confirming the decommissioning dates are consistent with the Group's latest drilling plan;
- Evaluating the appropriateness of the inflation and discount rates applied;
- Testing the arithmetical accuracy of management's calculation of decommissioning liabilities; and
- Challenging management's completeness of decommissioning liabilities that have been recorded.

Based on the work performed, the decommissioning liabilities recorded and disclosures made are supported by the available evidence.

INDEPENDENT AUDITORS' REPORT

OTHER INFORMATION

The directors of the Company are responsible for the other information. The other information comprises the information included in the annual report, but does not include the consolidated financial statements and our auditors' report thereon ("Other Information").

Our opinion on the consolidated financial statements does not cover the Other Information and we do not express any form of assurance conclusion thereon.

In connection with our audit of the consolidated financial statements, our responsibility is to read the Other Information and, in doing so, consider whether the Other Information is materially inconsistent with the consolidated financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If, based on the work we have performed, we conclude that there is a material misstatement of this Other Information, we are required to report that fact. We have nothing to report in this regard.

RESPONSIBILITIES OF DIRECTORS AND THE AUDIT COMMITTEE FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors of the Company are responsible for the preparation of the consolidated financial statements that give a true and fair view in accordance with HKFRSs issued by the HKICPA 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.

In preparing the consolidated financial statements, the directors are responsible for assessing the Group's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless the directors either intend to liquidate the Group or to cease operations, or have no realistic alternative but to do so.

The Audit Committee is responsible for overseeing the Group's financial reporting process.

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS

Our objectives are to obtain reasonable assurance about whether the consolidated financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditors' report that includes our opinion. We report our opinion solely to you, as a body in accordance with section 90 of the Companies Act 1981 of Bermuda, and for no other purpose. We do not assume responsibility towards or accept liability to any other person for the contents of this report.

Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with HKSAs will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these consolidated financial statements.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

As part of an audit in accordance with HKSAs, we exercise professional judgment and maintain professional skepticism throughout the audit. We also:

- Identify and assess the risks of material misstatement of the consolidated financial statements, whether due to fraud or error, design and perform audit procedures responsive to those risks, and obtain audit evidence that is sufficient and appropriate to provide a basis for our opinion. The risk of not detecting a material misstatement resulting from fraud is higher than for one resulting from error, as fraud may involve collusion, forgery, intentional omissions, misrepresentations, or the override of internal control.

- Obtain an understanding of internal control relevant to the audit 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 Group's internal control.

- Evaluate the appropriateness of accounting policies used and the reasonableness of accounting estimates and related disclosures made by the directors.

- Conclude on the appropriateness of the directors' use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Group's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our auditors' report to the related disclosures in the consolidated financial statements or, if such disclosures are inadequate, to modify our opinion. Our conclusions are based on the audit evidence obtained up to the date of our auditors' report. However, future events or conditions may cause the Group to cease to continue as a going concern.

- Evaluate the overall presentation, structure and content of the consolidated financial statements, including the disclosures, and whether the consolidated financial statements represent the underlying transactions and events in a manner that achieves fair presentation.

- Obtain sufficient appropriate audit evidence regarding the financial information of the entities or business activities within the Group to express an opinion on the consolidated financial statements. We are responsible for the direction, supervision and performance of the group audit. We remain solely responsible for our audit opinion.

We communicate with the Audit Committee regarding, among other matters, the planned scope and timing of the audit and significant audit findings, including any significant deficiencies in internal control that we identify during our audit.

INDEPENDENT AUDITORS' REPORT

AUDITORS' RESPONSIBILITIES FOR THE AUDIT OF THE CONSOLIDATED FINANCIAL STATEMENTS (Continued)

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence, and to communicate with them all relationships and other matters that may reasonably be thought to bear on our independence, and where applicable, related safeguards.

From the matters communicated with the Audit Committee, we determine those matters that were of most significance in the audit of the consolidated financial statements of the current period and are therefore the key audit matters. We describe these matters in our auditors' report unless law or regulation precludes public disclosure about the matter or when, in extremely rare circumstances, we determine that a matter should not be communicated in our report because the adverse consequences of doing so would reasonably be expected to outweigh the public interest benefits of such communication.

The engagement director on the audit resulting in this independent auditors' report is Ng Ka Wah.

HLB Hodgson Impey Cheng Limited
Certified Public Accountants

Ng Ka Wah
Practising Certificate Number: P06417

Hong Kong, 30 March 2017

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Revenue	8	**20,568,871**	23,320,527
Other revenue	8	**12,825**	12,728
		20,581,696	23,333,255
Expenses			
Purchases		**(20,305,987)**	(22,803,665)
Royalties		**(19,216)**	(38,719)
Field operation expenses		**(67,169)**	(83,000)
Exploration and evaluation expenses		**(17,581)**	(2,968)
Selling and distribution expenses		**(4,241)**	(15,030)
Administrative expenses		**(85,612)**	(92,413)
Depreciation, depletion and amortisation		**(122,996)**	(245,818)
Other gains and losses	9	**(233,138)**	(4,660,561)
		(20,855,940)	(27,942,174)
Loss from operating activities	10	**(274,244)**	(4,608,919)
Finance costs	13	**(57,073)**	(33,812)
Loss before taxation		**(331,317)**	(4,642,731)
Taxation	14	**61,025**	116,622
Loss for the year		**(270,292)**	(4,526,109)
Other comprehensive income/(loss)			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translating foreign operations			
Exchange differences arising during the year		**26,166**	(306,046)
Reclassification adjustment relating to foreign subsidiary deregistered during the year		**3,108**	–
Other comprehensive income/(loss) for the year, net of tax		**29,274**	(306,046)
Total comprehensive loss for the year		**(241,018)**	(4,832,155)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(267,722)**	(4,544,205)
Non-controlling interests		**(2,570)**	18,096
		(270,292)	(4,526,109)
Total comprehensive (loss)/income for the year attributable to:			
Owners of the Company		**(232,245)**	(4,843,969)
Non-controlling interests		**(8,773)**	11,814
		(241,018)	(4,832,155)
Loss per share attributable to the owners of the Company	16		
Basic and diluted, HK cents		**(2.20)**	(37.41)

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

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	**1,690,356**	1,878,740
Prepaid lease payments	*18*	**16,124**	17,538
Investment properties	*19*	**28,970**	29,458
Intangible asset	*20*	**6,731**	47,848
Exploration and evaluation assets	*21*	**27,566**	46,258
Deferred tax assets	*35*	**70,625**	–
Goodwill	*23*	**51,418**	51,418
		1,891,790	2,071,260
Current assets			
Inventories	*25*	**8,441**	29,347
Trade receivables	*26*	**24,122**	236,784
Prepayments, deposits and other receivables	*27*	**107,584**	115,412
Tax recoverable		**–**	5,681
Cash and bank balances	*29*	**610,283**	886,690
		750,430	1,273,914
Total assets		**2,642,220**	3,345,174
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*30*	**242,911**	242,911
Reserves		**1,177,015**	1,392,055
Equity attributable to the owners of the Company		**1,419,926**	1,634,966
Non-controlling interests		**104,384**	112,941
Total equity		**1,524,310**	1,747,907

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2016

	Notes	**2016 HK$'000**	2015 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*31*	**364,175**	467,392
Derivative financial instruments	*28*	**967**	4,383
Tax payables		**851**	–
Bank borrowings	*32*	**269,055**	664,085
		635,048	1,135,860
Non-current liabilities			
Convertible bonds	*33*	**366,303**	353,792
Decommissioning liabilities	*34*	**102,371**	91,060
Deferred tax liabilities	*35*	**14,188**	16,555
		482,862	461,407
Total liabilities		**1,117,910**	1,597,267
Total equity and liabilities		**2,642,220**	3,345,174
Net current assets		**115,382**	138,054
Total assets less current liabilities		**2,007,172**	2,209,314

The consolidated financial statements on pages 53 to 147 were approved and authorised for issue by the board of directors on 30 March 2017 and are signed on its behalf by:

Mr. Li Yi
Chairman

Mr. Bruno Guy Charles Deruyck
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 2016

	Attributable to the owners of the Company												Non-controlling interests	Total
		Reserves												
	Share capital HK$'000	Share premium HK$'000 *(Note i)*	Contributed surplus HK$'000 *(Note ii)*	Exchange reserve HK$'000	Revaluation reserve HK$'000 *(Note iii)*	Reserve on acquisition of additional interests in a subsidiary HK$'000	Share options reserve HK$'000	Statutory reserve HK$'000 *(Note vi)*	Convertible bonds reserve HK$'000 *(Note v)*	Other reserve HK$'000 *(Note vii)*	Accumulated losses HK$'000	Sub-total HK$'000	HK$'000	HK$'000
At 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														
Items that may be reclassified subsequently to profit or loss:														
Exchange differences on translating foreign operations														
Exchange differences arising during 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 and 1 January 2016	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
Loss for the year	–	–	–	–	–	–	–	–	–	–	(267,722)	(267,722)	(2,570)	(270,292)
Other comprehensive income/(loss) for the year														
Items that may be reclassified subsequently to profit or loss:														
Exchange differences on translating foreign operations														
Exchange differences arising during the year	–	–	–	32,369	–	–	–	–	–	–	–	32,369	(6,203)	26,166
Reclassification adjustment relating to foreign subsidiary deregistered during the year	–	–	–	3,108	–	–	–	–	–	–	–	3,108	–	3,108
Total comprehensive (loss)/income for the year	–	–	–	35,477	–	–	–	–	–	–	(267,722)	(232,245)	(8,773)	(241,018)
Release of reserve upon deregistration of a subsidiary	–	–	–	–	–	1,100	–	–	–	–	(1,100)	–	–	–
Recognition of convertible bonds reserve	–	–	–	–	–	–	–	–	16,373	–	–	16,373	–	16,373
Recognition of share based payment expenses	–	–	–	–	–	–	327	–	–	–	–	327	–	327
Net increase in other reserve	–	–	–	–	–	–	–	–	–	505	–	505	216	721
At 31 December 2016	**242,911**	**1,763,060**	**6,403,929**	**(385,865)**	**385,259**	**2,286,365**	**327**	**21,899**	**16,373**	**3,336**	**(9,317,668)**	**1,177,015**	**104,384**	**1,524,310**

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2016

Notes:

(i) The share premium account of the Group includes (i) shares issued at premium of HK$ nil (2015: HK$ nil); and (ii) special reserve of HK$1,763,060,000 (2015: 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) The share-based payment reserve represents the fair value of the actual or estimated number of unexercised share options granted to director of the Company recognised in accordance with the accounting policy adopted for share based payment set out in note 3(p).

(v) The convertible bonds reserve represents the equity component (conversion rights) of convertible bonds issued by the Company. If the convertible bonds are not converted by the convertible bond holder or redempted by the Company at the maturity date, the convertible bonds reserve will be reclassified to accumulated losses.

(vi) 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.

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

During the year ended 31 December 2016, the Group made appropriation of other reserve of HK$2,655,000 (2015: HK$2,778,000) and utilisation of other reserve of HK$1,934,000 (2015: HK$2,816,000), resulting in a net increase in other reserve of HK$721,000 (2015: net decrease in other reserve of HK$38,000).

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

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Loss before taxation		(331,317)	(4,642,731)
Adjustments for:			
Interest income	8	(4,476)	(10,847)
Depreciation and depletion of property, plant and equipment	17	122,545	245,324
Amortisation of prepaid lease payments	18	451	494
Change in fair value on derivative components of convertible bonds	33	12,992	(1,047)
Fair value change on investment properties	19	(627)	(1,011)
Gain on disposal of property, plant and equipment and exploration and evaluation assets	9	(7,362)	(1,642)
Written off of expired exploration and evaluation assets	9	6,338	8,615
Impairment loss of property, plant and equipment	17	177,810	493,975
Impairment loss of prepaid lease payments	18	–	828
Impairment loss of intangible asset	20	38,779	26,465
Impairment loss of exploration and evaluation assets	21	2,143	4,138,179
Share-based payment expenses		327	–
Net increase/(decrease) in other reserve		721	(38)
Net exchange (gain)/loss	9	(16)	6,647
Fair value (gain)/loss on derivative financial instruments		(37)	15,898
Finance costs	13	57,073	33,812
Operating cash flows before movements in working capital		75,344	312,921
Decrease/(increase) in trade receivables		204,295	(45,675)
Decrease in inventories		19,438	28,320
(Increase)/decrease in prepayments, deposits and other receivables		(6,034)	3,339
(Decrease)/increase in trade and other payables		(102,029)	95,846
Increase/(decrease) in decommissioning liabilities		7,999	(2,830)
Cash generated from operations		199,013	391,921
Interest received		4,476	10,847
Tax paid		(4,706)	(36,411)
Net cash generated from operating activities		198,783	366,357
Cash flows from investing activities			
Purchases of exploration and evaluation assets		(1,909)	(5,986)
Purchases of property, plant and equipment		(82,483)	(210,509)
Proceeds from disposal of property, plant and equipment		61,560	–
Net cash used in investing activities		(22,832)	(216,495)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2016

	Notes	2016 HK$'000	2015 HK$'000
Cash flows from financing activities			
Proceeds from bank borrowings		**555,920**	490,044
Interest paid		**(41,762)**	(30,172)
Repayment of bank borrowings		**(968,690)**	(624,295)
Proceeds from issue of convertible bonds		**–**	358,825
Dividend paid to a non-controlling shareholder		**–**	(2,905)
Net cash (used in)/generated from financing activities		**(454,532)**	191,497
Net (decrease)/increase in cash and cash equivalents		**(278,581)**	341,359
Cash and cash equivalents at the beginning of the year		**886,690**	575,602
Effect of exchange rate changes		**2,174**	(30,271)
Cash and cash equivalents at the end of the year	*29*	**610,283**	886,690
Analysis of balances of cash and cash equivalents			
Cash and bank balances	*29*	**610,283**	886,690

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 AMENDMENTS TO 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 amendments to 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 2016. A summary of the new and amendments to HKFRSs are set out as below:

HKFRS 14	Regulatory Deferral Accounts
Amendments to HKFRS 11	Accounting for Acquisitions of Interests in Joint Operations
Amendments to HKAS 1	Disclosure Initiative
Amendments to HKAS 16 and HKAS 38	Clarification of Acceptable Methods of Depreciation and Amortisation
Amendments to HKAS 16 and HKAS 41	Agriculture: Bearer Plants
Amendments to HKAS 27	Equity Method in Separate Financial Statements
Amendments to HKFRS 10, HKFRS 12 and HKAS 28	Investments Entities: Applying the Consolidation Exception
Amendments to HKFRSs	Annual Improvements to HKFRSs 2012-2014 Cycle

The application of the above new and amendments to 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

New and amendments to HKFRSs in issue but not yet effective

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

HKFRS 9	Financial Instruments[2]
HKFRS 15	Revenue from Contracts with Customers[2]
HKFRS 16	Leases[3]
Amendments to HKFRS 2	Classification and Measurement of Share-based Payment Transactions[2]
Amendments to HKFRS 4	Applying HKFRS 9 Financial Instruments with HKFRS 4 Insurance Contracts[2]
Amendments to HKFRS 15	Clarification of HKFRS 15 Revenue from Contracts with Customers[2]
Amendments to HKAS 7	Disclosure Initiative[1]
Amendments to HKAS 12	Recognition of Deferred Tax Assets for Unrecognised Losses[1]
Amendments to HKFRS 10 and HKAS 28	Sale or Contribution of Assets between an Investor and its Associate or Joint Venture[4]
Amendments to HKFRSs	Annual Improvements to HKFRSs 2014-2016 Cycle[5]

1 Effective for annual periods beginning on or after 1 January 2017, with earlier application permitted.

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

3 Effective for annual periods beginning on or after 1 January 2019, with earlier application permitted.

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

5 Effective for annual periods beginning on or after 1 January 2017 or 1 January 2018, as appropriate.

HKFRS 9 Financial Instruments

HKFRS 9 introduced new requirements for the classification and measurement of financial assets, financial liabilities, general hedge accounting and impairment requirements for financial assets.

Key requirements of HKFRS 9:

- All recognised financial assets that are within the scope of HKFRS 9 are required to be subsequently measured at amortised cost or fair value. Specifically, debt investments that are held within a business model whose objective is to collect the contractual cash flows, and that have contractual cash flows that are solely payments of principal and interest on the principal outstanding are generally measured at amortised cost at the end of subsequent 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 fair value through other comprehensive income. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

New and amendments to 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 was presented in profit or loss.

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

- 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 anticipate that the application of HKFRS 9 in the future may have an 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 until a detailed review has been completed.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

HKFRS 15 Revenue from Contracts with Customers

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.

In 2016, the HKICPA issued Clarifications to HKFRS 15 in relation to the identification of performance obligations, principal versus agent considerations, as well as licensing application guidance.

The Directors anticipate that the application of HKFRS 15 in the future may have an impact on the amounts reported as the timing of revenue recognition may be affected/and the amounts of revenue recognised are subject to variable consideration constraints, and more disclosures relating to revenue is required. However, it is not practicable to provide a reasonable estimate of the effect of HKFRS 15 until the Directors perform a detailed review. In addition, the application of HKFRS 15 in the future may result in more disclosures in the consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

HKFRS 16 Leases

HKFRS 16 introduces a comprehensive model for the identification of lease arrangements and accounting treatments for both lessors and lessees. HKFRS 16 will supersede HKAS 17 *Leases* and the related interpretations when it becomes effective.

HKFRS 16 distinguishes lease and service contracts on the basis of whether an identified asset is controlled by a customer. Distinctions of operating leases and finance leases are removed for lessee accounting, and is replaced by a model where a right-of-use asset and a corresponding liability have to be recognised for all lessee by lessees, except for short-term leases of low value assets.

The right-of-use asset is initially measured at cost and subsequently measured at cost (subject to certain exceptions) less accumulated depreciation and impairment losses, adjusted for any remeasurement of the lease liability. The lease liability is initially measured at the present value of the lease payments that are not paid at that date. Subsequently, the lease liability is adjusted for interest and lease payments, as well as the impact of lease modifications, amongst others. For the classification of cash flows, the Group currently presents other operating lease payments as operating cash flows. Under HKFRS 16, lease payments in relation to lease liability will be allocated into a principal and an interest portion which will be presented as financing and financing cash flows respectively.

Under HKAS 17, the Group has already recognised prepaid lease payments for leasehold lands where the Group is a lessee. The application of HKFRS 16 may result in potential changes in classification of these assets depending on whether the Group presents right-of-use assets separately or within the same line item at which the corresponding underlying assets would be presented if they were owned.

In contrast to lessee accounting, HKFRS 16 substantially carried forward the lessor accounting requirements in HKAS 17, and continues to require a lessor to classify a lease either as an operating lease or a finance lease.

Furthermore, extensive disclosures are required by HKFRS 16.

The Directors do not anticipate that the applications of these will have a material effect on the Group's consolidated financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

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

Amendments to HKFRS 2 Classification and Measurement of Share-based Payment Transactions

The amendments clarify the following:

1. In estimating the fair value of a cash-settled share-based payment, the accounting for the effects of vesting and non-vesting conditions should follow the same approach as for equity-settled share-based payments.

2. Where tax law or regulation requires an entity to withhold a specified number of equity instruments equal to the monetary value of the employee's tax obligation to meet the employee's tax liability which is then remitted to the tax authority, i.e. the share-based payment arrangement has a "net settlement feature", such as arrangement should be classified as equity-settled in its entirely, provided that the share-based payment would have been classified as equity-settled had it not included the net settlement feature.

3. A modification of a share-based payment that changes the transaction from cash-settled to equity-settled should be accounted for as follows:

   (i) the original liability is derecognised;

   (ii) the equity-settled share-based payment is recognised at the modification date fair value of the equity instrument granted to the extent that services have been rendered up to the modification date; and

   (iii) any difference between the carrying amount of the liability at the modification date and the amount recognised in equity should be recognised in profit or loss immediately.

The Directors do not anticipate that the application of these amendments to HKFRS 2 will have a material impact on the Group's consolidated financial statements.

The Group is in the process of assessing the potential impact of the other new and revised HKFRSs upon initial application but is not yet in a position to state whether the above new and revised HKFRSs will have a significant impact on the Group's results of operations and financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 individual HKFRSs, Hong Kong Accounting Standards ("HKASs") and Interpretations ("Ints") issued by the HKICPA. In addition, the consolidated financial statements include applicable disclosures required by the Rules Governing the Listing of Securities on the Stock Exchange (the "Listing Rules") and by the disclosure requirements of the Hong Kong Companies Ordinance.

(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 at the end of each reporting period, 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 *Share-based Payment*, leasing transactions that are within the scope of HKAS 17 *Leases*, and measurements that have some similarities to fair value but are not fair value, such as net realisable value in HKAS 2 *Inventories* or value in use in HKAS 36 *Impairment of Assets*.

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

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

The principal accounting policies are set out below.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

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.

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 relevant components of equity including reserves 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 after re-attribution of the relevant equity component, and the fair value of the consideration paid or received is recognised directly in equity and attributed to the 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 attributable to the owners of the Company. 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Business combinations

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 assets or liabilities 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 arrangements of the acquiree or share-based payment arrangements of the Group entered into to replace share-based payment arrangements of the acquire are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 re-assessment, the net amount 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 relevant subsidiary'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.

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 included 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 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 to fair value at subsequent reporting dates, 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), and additional assets or liabilities are recognised, to reflect new information obtained about facts and circumstances that existed as of the acquisition date that, if known, would have affected the amounts recognised as of that date.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 (see the accounting policy above) less accumulated impairment losses, if any.

For the purposes of impairment testing, goodwill is allocated to each of the Group's cash-generating unit ("CGU") (or groups of cash-generating units ("CGUs")) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or group of CGUs) to which goodwill has been allocated is tested for impairment before the end of that reporting period. If the recoverable amount is less than its carrying amount, the impairment loss is allocated first to reduce the carrying amount of any goodwill and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit (or group of CGUs).

On disposal of the relevant CGU, the attributable amount of goodwill is included in the determination of the amount of profit or loss on disposal.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Revenue recognition

Revenue is measured at the fair value of the consideration. Revenue is reduced for estimated customer returns, rebates and other similar allowances.

Revenue is recognised when the amount of revenue can be reliably measured; when it is probable that future economic benefits will flow to the Group and when specific criteria have been met for each of the Group's activities, as described below.

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 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 in profit or loss on a straight line basis over the terms of the relevant lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(g) Property, plant and equipment

Property, plant and equipment are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent 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.

Properties in the course of construction for production or for its own use purposes are carried at cost, less any recognised impairment loss. Such properties are classified to the appropriate categories 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.

Except for petroleum and natural gas properties, depreciation is recognised so as to write-off the cost of assets less their residual values over their estimated useful lives, using the straight-line method. The estimated useful lives, residual values and depreciation method are reviewed at the end of each reporting period, with the effect of any changes in estimate accounted for on a prospective basis. The annual rates used are as follows:

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 the end of each reporting period.

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 the disposal or retirement of an item of property, plant and equipment is determined as the difference between the sales proceeds and the carrying amount of the asset and is recognised in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Investment properties

Investment properties are properties held to earn rentals and/or for capital appreciation. Investment properties are initially measured at cost, including any directly attributable expenditure. Subsequent to initial recognition, investment properties are measured at their fair values. All of the Group's property interests held under operating leases to earn rentals or for capital appreciation purposes are classified and accounted for as investment properties and are measured using the fair value model. 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 property (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 property is derecognised.

(i) Exploration and evaluation assets

Exploration and evaluation assets include the cost of acquiring licenses, exploratory drilling, geological and geophysical activities, acquisition of mineral and surface rights, decommissioning liabilities and technical studies. Exploration and evaluation costs are capitalised as exploration and evaluation assets when the technical feasibility and commercial viability of extracting petroleum and natural gas reserves have yet to be determined. Exploration and evaluation assets are measured at cost and are not depleted or depreciated.

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

(j) Intangible assets

Intangible assets acquired in a business combination

Intangible assets acquired in a business combination are recognised separately from goodwill and are initially recognised at their fair value at the acquisition date (which is recognised as their cost).

Subsequent to initial recognition, intangible assets with finite useful lives are reported as 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 CGU 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)

(k) Impairment on tangible and intangible assets other than goodwill

At the end of the 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 CGU 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 CGUs for which a reasonable and consistent allocation basis can be identified.

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

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

If the recoverable amount of an asset (or a CGU) is estimated to be less than its carrying amount, the carrying amount of the asset (or the CGU) is reduced to its recoverable amount. In allocating the impairment loss, the impairment loss is allocated first to reduce the carrying amount of any goodwill (if applicable) and then to the other assets on a pro-rata basis based on the carrying amount of each asset in the unit. The carrying amount of an asset is not reduced below the highest of its fair value less costs of disposal (if measurable), its value in use (if determinable) and zero. The amount of the impairment loss that would otherwise have been allocated to the asset is allocated pro rata to the other assets of the unit. An impairment loss is recognised immediately in profit or loss.

When an impairment loss subsequently reverses, the carrying amount of the asset (or CGU) 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 CGU) in prior years. A reversal of an impairment loss is recognised immediately in profit or loss.

(l) 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 represents the estimated selling price for inventories less all estimated costs necessary to make on sale.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) 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

Operating lease payments are recognised as an expense on a straight-line basis over the lease term, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed. Contingent rentals arising under operating leases are recognised as an expense in the period in which they are incurred.

In the event that lease incentives are received to enter into operating leases, such incentives are recognised as a liability. The aggregate benefit of incentives is recognised as a reduction of rental expense on a straight-line basis, except where another systematic basis is more representative of the time pattern in which economic benefits from the leased asset are consumed.

Leasehold land and buildings

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, unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. 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.

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. When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) 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 recognised 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 at that date. 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 on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

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) using exchange rates prevailing at the end of the reporting period. Income and expense items 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 in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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 other comprehensive income.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(o) 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 Schemes") are charged as expenses when employees have rendered services entitling them to the contributions.

(p) Share-based payment arrangements

Equity-settled share-based payment transactions

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date.

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in 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 the 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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 loss before taxation as reported in the consolidated statement of profit or loss and other comprehensive income because 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 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. In addition, deferred tax liabilities are not recognised if the temporary differences arise from the initial recognition of goodwill.

Deferred tax liabilities are recognised for taxable temporary differences associated with investments in subsidiaries, 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 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Taxation (Continued)

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

For the purposes of measuring deferred tax 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.

(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 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 fair value through profit or loss are recognised immediately in profit or loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Financial assets

Financial assets are classified into 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.

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 fair value through profit or loss, of which interest income is included in net gains or losses.

Loans and receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Subsequent to initial recognition, 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 impairment (see the accounting policy on impairment loss on financial assets below).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Impairment of financial assets

Financial assets, other than those at fair value through profit or loss, are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be 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.

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 90 days, observable changes in national or local economic conditions that correlate with default on receivables.

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

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

Financial liabilities and equity instruments

Financial liabilities and equity instruments issued by a group entity are classified as either financial liabilities or as equity in accordance with the substance of the contractual arrangements and the definitions of a financial liability and an equity instrument.

Equity instruments

An equity instrument is any contract that evidences a residual interest in the asset of an entity after deducting all of its liabilities. Equity instruments issued by the Company are recorded at the proceeds received, net of direct issue costs.

Effective interest method

The effective interest method is a method of calculating the amortised cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments (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 financial liability, or, where appropriate, a shorter period, to the net carrying amount on initial recognition. Interest expense is recognised on an effective interest basis other than those financial liabilities classified as at fair value through profit or loss, of which the interest expense is included in net gain or losses.

Financial liabilities at amortised cost

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) Financial instruments (Continued)

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 recognises its retained interest in the asset and an associated liability for amounts it may have to pay. 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 collateralised borrowing for the proceeds received.

On derecognition of a financial asset, 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.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(t) Provisions

Provisions are recognised when the Group has a present obligation (legal or constructive) as a result of a past event, it is probable that the Group will be required to settle that obligation, and a reliable estimate can be made of the amount of the obligation.

The amount recognised as a provision is the best estimate of the consideration required to settle the present obligation at the end of the reporting period, taking into account the risks and uncertainties surrounding the obligation. When a provision is measured using the cash flows estimated to settle the obligation, its carrying amount is the present value of those cash flows (where the effect of the time value of money is material).

Decommissioning liabilities

Decommissioning liabilities are recognised for decommissioning and restoration obligations associated with the Group's exploration and evaluation assets and property, plant and equipment. The best estimate of the expenditure required to settle the present obligation at the end of the reporting period 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 assets or property, plant and equipment and is depleted as part of the cost of exploration and evaluation assets or property, plant and equipment. 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 in profit or loss.

(u) Cash and cash equivalents

For the purpose of the consolidated statement of cash flows, cash and cash equivalents comprises 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's and the Company's 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(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 over the Group;

ii. has significant influence over the Group; or

iii. is a member of the key management personnel of the Group or of a parent of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 of 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) dependents of that person or that person's spouse or domestic partner.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

The followings are 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 taxes. 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 2016, the recoverable amount of exploration and evaluation assets have been determined based on recent land sales. 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 independent qualified professional valuers.

(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 CGU is determined based on value in use calculations which require the use of assumptions and estimates.

(e) Impairment of intangible asset

Determine whether intangible asset is 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 CGU and a suitable discount rate in order to calculate the present value.

The carrying amount of intangible asset at the end of the year was HK$6,731,000 (2015: HK$47,848,000) and impairment loss of HK$38,779,000 was recognised for the year (2015: HK$26,465,000). 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.

As at 31 December 2016 and 31 December 2015, no impairments on inventories were made.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 CGUs, 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. CGUs 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 estimated decommissioning costs, timing of the decommissioning, inflation rate, discount rate,and the economic life of a field.

(i) Fair value 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 requires the Group to make estimates about expected share price volatility and discount rate, and hence they are subjected to uncertainty.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES

(a) Categories of financial instruments

The Group

	2016 HK$'000	2015 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)		
— Trade receivables *(Note 26)*	24,122	236,784
— Other receivables	5,496	13,346
— Cash and bank balances *(Note 29)*	610,283	886,690
	639,901	1,136,820
Financial liabilities		
At amortised costs		
— Trade and other payables	147,563	357,293
— Bank borrowings *(Note 32)*	269,055	664,085
— Convertible bonds *(Note 33)*	366,303	353,792
— Decommissioning liabilities *(Note 34)*	102,371	91,060
	885,292	1,466,230
At fair value through profit or loss		
— Derivative financial instruments *(Note 28)*	967	4,383
	886,259	1,470,613

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(b) Financial risk management objectives and policies

The Group's financial instruments include trade and other receivables, cash and bank balances, trade and other payables, bank borrowings, convertible bonds, decommissioning liabilities and derivative financial instruments. Details of these financial instruments are disclosed in respective notes to the consolidated financial statements. The risks associated with these financial instruments include market risk (foreign exchange risk, interest rate risk and commodity price risk), credit risk and liquidity risk. 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 exposed to cash flow 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 analysis below have been determined based on the exposure to interest rates for non-derivative instruments at the end of the reporting period. The analysis is prepared assuming the financial instruments outstanding at the end of the reporting period were outstanding for the whole year. A 100 basis points (2015: 100 basis points) increase or decrease is used to represent management's assessment of the reasonably possible change in interest rates. Bank balances are excluded from sensitivity analysis as the Directors consider that the exposure of cash flow interest rate risk arising from variable-rate bank balances is insignificant.

If interest rates had been 100 basis points (2015: 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 HK$2,691,000 (2015: pre-tax loss would increase/decrease by HK$6,641,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 the 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 years ended 31 December 2016 and 31 December 2015, a CAD5/bbl (equivalent to HK$29/bbl) (2015: CAD5/bbl (equivalent to HK$28/bbl)) increase/decrease in the referenced crude oil prices would have no material effect on net loss on the Group's commodity contracts outstanding on 31 December 2016 and 31 December 2015. The management believes a CAD5/bbl (2015: CAD5/bbl) price fluctuation, with all other variables held constant, is a reasonable measure of volatility.

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 delegated a team responsible for determination of credit limits, credit approvals and other monitoring procedures to ensure that follow-up action is taken to recover overdue debts. In addition, the Group reviews the recoverable amount of each individual trade receivables at the end of the reporting period to ensure that adequate impairment losses are made for irrecoverable amounts. In this regard, 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 tables 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. The tables include both interest and principal cash flows.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

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

Liquidity risk (Continued)

	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 2016						
Non-derivative financial liabilities						
Trade and other payables	–	147,563	–	–	147,563	147,563
Bank borrowings	6.24	283,849	–	–	283,849	269,055
Convertible bonds	7.00	–	441,355	–	441,355	366,303
Decommissioning liabilities	2.30	147,724	–	–	147,724	102,371
		579,136	441,355	–	1,020,491	885,292
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
Convertible bonds	5.00	–	466,473	–	466,473	353,792
Decommissioning liabilities	3.25	143,406	–	–	143,406	91,060
		1,167,226	466,473	–	1,633,699	1,466,230

(c) Fair value measurements of financial instruments

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).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Fair value measurements of financial instruments (Continued)

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

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

Financial liabilities	Fair value as at 31 December		Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
	2016 HK$'000	2015 HK$'000			
Derivative financial instruments					
— Oil commodity contracts	**–**	35	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	**967**	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 is 10.36% (2015: 10.28%). Share price volatility of 46.30% (2015: 37.32%) *(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 a decrease in the fair value measurement of derivative components of convertible bonds.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

5. FINANCIAL RISK MANAGEMENT OBJECTIVES AND POLICIES (Continued)

(c) Fair value measurements of financial instruments (Continued)

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

There were no transfers between Level 1 and 2 during the year.

Reconciliation of Level 3 fair value measurements

	HK$'000
At 1 January 2015	–
Recognition of derivative components of convertible bonds	5,395
Fair value change	(1,047)
At 31 December 2015 and 1 January 2016	4,348
Fair value change	12,992
Recognition of convertible bonds reserve	(16,373)
At 31 December 2016	**967**

Fair value of the Group's Financial assets and liabilities that are not measured at fair value on a recurring basis (but fair value disclosures are required)

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

	2016		2015	
	Carrying amount HK$'000	**Fair value HK$'000**	Carrying amount HK$'000	Fair value HK$'000
Financial liabilities				
Convertible bonds	**366,303**	**366,272**	353,792	354,493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

6. CAPITAL RISK MANAGEMENT

The Group manages its capital 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 Group's overall strategy remains unchanged from prior years.

The capital structure of the Group consists of debts which include total liabilities (which includes trade and other payables, derivative financial instruments, tax payables, bank borrowings, convertible bonds, decommissioning liabilities and deferred tax liabilities) 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 2016 and 31 December 2015, the Group's strategy was to maintain a gearing ratio less than 1. The gearing ratio at 31 December 2016 and 31 December 2015 were as follows:

	2016 **HK$'000**	2015 HK$'000
Total liabilities	**1,117,910**	1,597,267
Total equity	**1,524,310**	1,747,907
Gearing ratio	**73.3%**	91.4%

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 2016

7. SEGMENT INFORMATION (Continued)

Segment revenue and results

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment revenue:						
Sales to external customers	199,683	371,386	20,369,188	22,949,141	20,568,871	23,320,527
Segment (loss)/profit	(54,204)	(40,962)	20,851	108,145	(33,353)	67,183
Other revenue					12,825	12,728
Fair value change on investment properties					627	1,011
Change in fair value on derivative components of convertible bonds					(12,992)	1,047
Net foreign exchange gain/(loss)					16	(6,647)
Impairment loss of exploration and evaluation assets					(2,143)	(4,138,179)
Impairment loss of intangible asset					(38,779)	(26,465)
Impairment loss of prepaid lease payments					–	(828)
Impairment loss of property, plant and equipment					(177,810)	(493,975)
Unallocated corporate expenses					(22,635)	(24,794)
Loss from operating activities					(274,244)	(4,608,919)
Finance costs					(57,073)	(33,812)
Loss before taxation					(331,317)	(4,642,731)
Taxation					61,025	116,622
Loss for the year					(270,292)	(4,526,109)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2015: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3. Segment loss/profit represents the loss from/profit earned by each segment without allocation of other revenue, fair value change on investment properties, change in fair value on derivative components of convertible bonds, net foreign exchange gain/loss, impairment losses, unallocated 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

7. SEGMENT INFORMATION (Continued)

Segment assets and liabilities

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

	Exploration, exploitation and operation		Supply and procurement		Consolidated	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Segment assets	1,655,166	1,767,708	760,442	1,001,359	2,415,608	2,769,067
Unallocated assets					226,612	576,107
Total assets					2,642,220	3,345,174
Segment liabilities	381,553	688,116	336,152	546,939	717,705	1,235,055
Unallocated liabilities					400,205	362,212
Total liabilities					1,117,910	1,597,267

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

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

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000	2016 HK$'000	2015 HK$'000
Other segment information:								
Depreciation of property, plant and equipment	1,358	1,405	7,541	5,675	74	144	8,973	7,224
Depletion of property, plant and equipment	113,572	238,100	–	–	–	–	113,572	238,100
Written off of expired exploration and evaluation assets	6,338	8,615	–	–	–	–	6,338	8,615
Amortisation of prepaid lease payments	–	15	451	479	–	–	451	494
Impairment loss of exploration and evaluation assets	2,143	4,138,179	–	–	–	–	2,143	4,138,179
Impairment loss of intangible asset	–	–	38,779	26,465	–	–	38,779	26,465
Impairment loss of prepaid lease payments	–	828	–	–	–	–	–	828
Impairment loss of property, plant and equipment	177,810	493,975	–	–	–	–	177,810	493,975
Additions to non-current assets*	98,446	137,664	14,168	38,978	39	21	112,653	176,663

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2016 and 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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's operations are located in Canada, the PRC, Madagascar and Hong Kong.

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

	Revenue from external customers		Non-current assets *(Note)*	
	2016 HK$'000	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Canada	**199,683**	371,386	**1,474,303**	1,673,468
PRC	**20,369,188**	22,949,141	**337,439**	388,314
Madagascar	**–**	–	**9,343**	9,363
Hong Kong	**–**	–	**80**	115
	20,568,871	23,320,527	**1,821,165**	2,071,260

Note:

Non-current assets excluded deferred tax assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$20,369,188,000 (2015: HK$22,949,141,000) are revenue of HK$14,700,980,000 (2015: HK$14,886,296,000) which arose from four (2015: 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:

	2016 HK$'000	2015 HK$'000
Customer A	**5,502,271**	8,757,103
Customer B *(Note)*	**–**	6,129,193
Customer C *(Note)*	**4,593,415**	–
Customer D *(Note)*	**2,475,389**	–
Customer E *(Note)*	**2,129,905**	–

Note:

The corresponding revenue did not contribute over 10% of the total revenue of the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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:

	2016 HK$'000	2015 HK$'000
Revenue		
Sales of crude oil and gas	199,683	371,386
Trading and distribution of oil related products	20,369,188	22,949,141
	20,568,871	23,320,527
Other revenue		
Bank interest income	4,476	10,847
Rental income	1,566	1,828
Storage fee income	6,782	–
Others	1	53
	12,825	12,728

9. OTHER GAINS AND LOSSES

	2016 HK$'000	2015 HK$'000
Net foreign exchange gain/(loss)	16	(6,647)
Fair value change on investment properties *(Note 19)*	627	1,011
Change in fair value on derivative components of convertible bonds *(Note 33)*	(12,992)	1,047
Gain on disposal of property, plant and equipment and exploration and evaluation assets	7,362	1,642
Written off of expired exploration and evaluation assets	(6,338)	(8,615)
Impairment loss of exploration and evaluation assets *(Note 21)*	(2,143)	(4,138,179)
Impairment loss of intangible asset *(Note 20)*	(38,779)	(26,465)
Impairment loss of prepaid lease payments *(Note 18)*	–	(828)
Impairment loss of property, plant and equipment *(Note 17)*	(177,810)	(493,975)
Change in fair value on derivative financial instruments	(3,081)	10,448
	(233,138)	(4,660,561)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

10. LOSS FROM OPERATING ACTIVITIES

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

	2016 **HK$'000**	2015 HK$'000
Auditors' remuneration		
— Audit services	**1,900**	1,900
— Non-audit services	**12**	212
Cost of inventories sold	**20,305,987**	22,803,665
Depreciation and depletion of property, plant and equipment *(Note 17)*	**122,545**	245,324
Amortisation of prepaid lease payments *(Note 18)*	**451**	494
Minimum lease payments under operating leases of rented premises	**7,819**	8,561
Staff costs (including Directors' remuneration)		
— Salaries and wages	**54,569**	57,240
— Share-based payment expenses	**327**	–
— Pension scheme contributions	**444**	493

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

11. DIRECTORS' REMUNERATION

The board of Directors of the Company is currently composed of 6 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:

For the year ended 31 December 2016

	Fees HK$'000	Salaries, other benefits and bonuses HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000	Total HK$'000
Executive Directors					
Mr. Li Yi *(Chairman)* (appointed on 12 January 2016)	–	249	–	–	249
Mr. Bruno Guy Charles Deruyck *(Chief executive officer)* (appointed on 1 October 2016)	–	1,202	–	327	1,529
Mr. Li Jun (appointed on 12 January 2016)	–	242	–	–	242
Ms. Sha Chunzhi (appointed on 2 December 2016)	–	21	–	–	21
Mr. Tan Meng Seng (appointed on 2 December 2016)	–	21	–	–	21
Mr. Shen Hao	–	250	–	–	250
Mr. Zhang Kaiyong (resigned on 12 January 2016)	–	7	–	–	7
Mr. Ren Yansheng (resigned on 2 July 2016)	–	1,656	–	–	1,656
Mr. Hui Bo (resigned on 2 December 2016)	–	229	–	–	229
Mr. Feng Dawei (resigned on 2 December 2016)	–	229	–	–	229
Mr. Zhao Jie (resigned on 12 January 2016)	–	7	–	–	7
Mr. Andres Pena Salceda (resigned on 2 December 2016)	–	229	12	–	241
Sub-total	–	4,342	12	327	4,681
Independent non-executive Directors					
Mr. Ng Wing Ka	128	–	–	–	128
Mr. Leung Ting Yuk	128	–	–	–	128
Mr. Sun Liming	128	–	–	–	128
Dr. Mu Guodong	128	–	–	–	128
Sub-total	512	–	–	–	512
Total	512	4,342	12	327	5,193

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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11. DIRECTORS' REMUNERATION (Continued)

For the year ended 31 December 2015

	Fees HK$'000	Salaries, other benefits and bonuses HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000	Total HK$'000
Executive Directors					
Mr. Zhang Kaiyong *(Chairman)* (resigned on 12 January 2016)	–	250	–	–	250
Mr. Ren Yansheng *(Chief Executive Officer)* (resigned on 2 July 2016)	–	2,789	–	–	2,789
Mr. Hui Bo *(Vice-president)* (resigned on 2 December 2016)	–	250	–	–	250
Mr. Shen Hao	–	250	–	–	250
Mr. Feng Dawei (resigned on 2 December 2016)	–	250	–	–	250
Mr. Zhao Jie (resigned on 12 January 2016)	–	250	–	–	250
Mr. Andres Pena Salceda (resigned on 2 December 2016)	–	250	12	–	262
Sub-total	–	4,289	12	–	4,301
Independent non-executive Directors					
Mr. Ng Wing Ka	128	–	–	–	128
Mr. Leung Ting Yuk	128	–	–	–	128
Mr. Sun Liming	128	–	–	–	128
Dr. Mu Guodong	128	–	–	–	128
Sub-total	512	–	–	–	512
Total	512	4,289	12	–	4,813

The executive Directors' emoluments shown above were for their services in connection with the management of the affairs of the Company and the Group.

The independent non-executive Directors' emoluments shown above were for their services as Directors of the Company.

11. DIRECTORS' REMUNERATION (Continued)

The remuneration of the Directors fall within the following bands:

	Number of Directors	
	2016	2015
HK$		
Nil – 1,000,000	**14**	10
1,500,001–2,000,000	**2**	–
2,500,001–3,000,000	**–**	1
	16	11

Included in the Directors' remuneration were fees of HK$512,000 (2015: HK$512,000) paid to independent non-executive Directors. No fees were paid to executive Directors during the year (2015: Nil).

No Directors waived or agreed to waive any remuneration during the year (2015: 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 (2015: Nil).

During the year ended 31 December 2016, a director was granted share options in respect of his services to the Group under the share option scheme of the Company. Details of the share option scheme are set out in Note 30 to the consolidated financial statements.

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 2016 and 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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

(b) Five highest paid individuals

The five highest paid employees of the Group during the year included two Directors (2015: one Director), details of whose remuneration are set out in Note 11 above. Details of the remuneration for the year of the remaining three (2015: four) highest paid employees who are neither a Director nor chief executive of the Company are as follows:

	2016 HK$'000	2015 HK$'000
Basic salaries and bonuses	5,074	4,950
Pension scheme contributions	18	18
	5,092	4,968

The number of the highest paid employees who are not the Directors whose remuneration fall within the following band is as follows:

	Number of individuals	
	2016	2015
HK$		
1,000,001–1,500,000	–	3
1,500,001–2,000,000	3	1
	3	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 (2015: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2015: Nil).

During the year ended 31 December 2016, no share options to subscribe for ordinary shares of the Company were granted to employees under the Company's share option scheme (2015: Nil).

13. FINANCE COSTS

	2016 HK$'000	2015 HK$'000
Interest expenses on bank borrowings wholly repayable within five years	18,997	30,172
Imputed interest on convertible bonds *(Note 33)*	35,835	754
Accretion of decommissioning liabilities *(Note 34)*	2,241	2,886
	57,073	33,812

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 (2015: 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 years ended 31 December 2016 and 31 December 2015.

	2016 **HK$'000**	2015 HK$'000
Current taxation		
Charge for the year — PRC	**8,270**	26,699
— Canada	**2,731**	5,906
Deferred taxation		
Credit for the year *(Note 35)*	**(72,026)**	(149,227)
Net tax credit for the year	**(61,025)**	(116,622)

(b) The tax charge for the year can be reconciled to the loss before taxation per the consolidated statement of profit or loss and other comprehensive income as follows:

For the year ended 31 December 2016

	Hong Kong		The PRC		Canada		Madagascar		Total	
	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%	HK$'000	%
Loss before taxation	(31,439)		(48,871)		(234,770)		(16,237)		(331,317)	
Tax at applicable income tax rate	(5,187)	(16.5)	(12,218)	(25.0)	(63,388)	(27.0)	(3,247)	(20.0)	(84,040)	(25.4)
Tax effect of expenses and income not deductible or taxable for tax purpose	5,187	16.5	20,488	41.9	66,119	28.2	3,247	20.0	95,041	28.7
Tax effect of temporary differences	–	–	(9,538)	(19.5)	(62,488)	(26.6)	–	–	(72,026)	(21.7)
Tax credit for the year	–	–	(1,268)	(2.6)	(59,757)	(25.4)	–	–	(61,025)	(18.4)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

14. TAXATION (Continued)

(b) (Continued)

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 for tax purpose	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)

15. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2016, nor has any dividend been proposed since the end of the reporting period (2015: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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:

	2016 HK$'000	2015 HK$'000
Loss		
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(267,722)**	(4,544,205)

	2016 '000	2015 '000
Number of shares		
Weighted average number of ordinary shares for the purpose of basic and diluted loss per share	**12,145,573**	12,145,573

Diluted loss per share for the years ended 31 December 2016 and 31 December 2015 were the same as the basic loss per share. The computation of diluted loss per share for the year ended 31 December 2016 does not assume the Company's outstanding convertible bonds and the outstanding share options since the assumed conversion of convertible bonds and the assumed exercise of share options would result in a decrease in loss per share. The computation of diluted loss per share for the year ended 31 December 2015 does not assume the Company's outstanding convertible bonds since the assumed conversion of convertible bonds would result in a decrease in loss per share. There were no share options outstanding for the year ended 31 December 2015.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings	Plant and machinery	Furniture, fixtures and equipment	Motor vehicles	Leasehold improvements	Petroleum and natural gas properties	Construction in progress	Total
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Cost								
At 1 January 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 and 1 January 2016	125,695	11,174	8,413	2,958	341	2,588,335	129,629	2,866,545
Additions	4,117	1,324	2,072	4	–	96,309	6,918	110,744
Disposals	–	–	(9)	–	–	(155,931)	(562)	(156,502)
Transfer from exploration and evaluation assets *(Note 21)*	–	–	–	–	–	5,886	–	5,886
Exchange differences	(6,957)	(626)	(82)	(165)	12	88,595	(7,216)	73,561
At 31 December 2016	122,855	11,872	10,394	2,797	353	2,623,194	128,769	2,900,234
Accumulated depreciation, depletion and impairment								
At 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 and 1 January 2016	16,810	2,370	3,628	1,432	341	963,224	–	987,805
Charge for the year	4,993	1,532	1,970	478	–	113,572	–	122,545
Eliminated on disposals	–	–	(8)	–	–	(108,321)	–	(108,329)
Impairment loss recognised during the year	–	–	–	–	–	177,810	–	177,810
Exchange differences	(965)	(142)	1	(84)	12	31,225	–	30,047
At 31 December 2016	20,838	3,760	5,591	1,826	353	1,177,510	–	1,209,878
Net book value								
At 31 December 2016	**102,017**	**8,112**	**4,803**	**971**	**–**	**1,445,684**	**128,769**	**1,690,356**
At 31 December 2015	108,885	8,804	4,785	1,526	–	1,625,111	129,629	1,878,740

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

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 CGUs, based on management's judgment in defining the smallest identifiable group of assets. The recoverable amount of each CGU 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 2.0% per annum (2015: 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% (2015: 10%).

As at 31 December 2016, the Group assessed for indicators of impairment for all its petroleum and natural gas properties. The Directors noted there were significant and prolonged reductions to forecasted oil benchmark pricing, which indicated that oil-weighted CGUs may be impaired. The primary source of cash flow information was derived from the Group's petroleum and natural gas reserves, which were prepared by an independent qualified reserve evaluator as at 31 December 2016. During the year ended 31 December 2016, the Group recognised an impairment loss on petroleum and natural gas properties of HK$177,810,000. The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their value in use.

As at 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, 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 pre-tax future net cash flows based on proved and probable reserves approved by the management and discounted at the rate of 10% (2015: 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 HK$46,714,000 (2015: HK$55,583,000) on petroleum and natural gas properties.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

18. PREPAID LEASE PAYMENTS

	2016 HK$'000	2015 HK$'000
Net book value		
At the beginning of the year	18,012	20,457
Amortisation for the year	(451)	(494)
Impairment loss recognised during the year	–	(828)
Exchange differences	(989)	(1,123)
At the end of the year	16,572	18,012
The Group's prepaid lease payments comprise:		
Land outside Hong Kong under medium term lease	16,572	18,012
Analysed for reporting purposes as:		
Current assets (include in prepayments, deposits and other receivables) *(Note 27)*	448	474
Non-current assets	16,124	17,538
	16,572	18,012

Amortisation on prepaid lease payments of HK$451,000 (2015: HK$494,000) have been charged to profit or loss for the year.

Impairment of prepaid lease payments

As the Directors 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 HK$828,000 was recognised for the year ended 31 December 2016. No impairment of prepaid lease payments was recognised for the year ended 31 December 2016.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 1 January 2015	29,663
Increase in fair values recognised in profit or loss	1,011
Exchange differences	(1,216)
At 31 December 2015 and 1 January 2016	29,458
Increase in fair values recognised in profit or loss	627
Exchange differences	(1,115)
At 31 December 2016	**28,970**

Included in profit or loss for the year ended 31 December 2016 are fair value change on investment properties (included in other gains and losses) amounting to HK$627,000 (2015: HK$1,011,000).

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 values of the Group's investment properties at 31 December 2016 and 31 December 2015 have been arrived at on the basis of valuations carried out on the respective dates by Ascent Partners Valuation Services Limited ("Ascent Partners") and Colliers International (Hong Kong) Limited ("Colliers"), independent qualified professional valuers not connected with the Group. Ascent Partners and Colliers 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.

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

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INVESTMENT PROPERTIES (Continued)

Valuation techniques

Income approach (term and reversion approach)

The income approach (term and reversion approach) estimates the value of investment properties on a market basis by capitalising 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 properties.

Significant unobservable inputs used to determine fair value

	Fair value at				Range of significant unobservable inputs			
	31 December 2016 HK$'000	31 December 2015 HK$'000	Valuation technique	Fair value hierarchy	Monthly market unit rent	Market unit value	Capitalisation rates	Sensitivity
Investment properties located in the PRC	**19,670**	20,158	Direct sales comparison approach and income approach	Level 3	RMB17.8 to RMB52 per square metre (2015: RMB17 to RMB51 per square metre)	RMB2,300 to RMB8,900 per square metre (2015: RMB1,690 to RMB8,646 per square metre)	5.5% to 10% (2015: 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 monthly 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**	9,300	Direct sales comparison approach	Level 2	N/A	USD173 per square metre (2015: USD173 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

19. INVESTMENT PROPERTIES (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.

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

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31 December 2016 HK$'000
Commercial building located in the PRC	–	3,778	3,778
Petrol station and land located in the PRC	–	4,167	4,167
Office units located in the PRC	–	9,502	9,502
Office building located in the PRC	–	2,223	2,223
Land located in Madagascar	9,300	–	9,300
	9,300	19,670	28,970

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31 December 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
	9,300	20,158	29,458

There were no transfers into or out of Level 3 during the year.

The followings are the details of rental income earned by the Group during the year ended 31 December 2016 and 31 December 2015:

	2016 HK$'000	2015 HK$'000
Gross rental income from investment properties	1,566	1,828
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	–	–
	1,566	1,828

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INTANGIBLE ASSET

	Refined oil supply agreement HK$'000
Cost	
At 1 January 2015	285,769
Exchange differences	(16,442)
At 31 December 2015 and 1 January 2016	269,327
Exchange differences	(14,839)
At 31 December 2016	254,488
Accumulated impairment	
At 1 January 2015	207,226
Impairment loss recognised during the year	26,465
Exchange differences	(12,212)
At 31 December 2015 and 1 January 2016	221,479
Impairment loss recognised during the year	38,779
Exchange differences	(12,501)
At 31 December 2016	247,757
Carrying amount	
At 31 December 2016	**6,731**
At 31 December 2015	47,848

The intangible asset represents 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INTANGIBLE ASSET (Continued)

The Refined Oil Supply Agreement had 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 another three years starting from 1 January 2014. On 30 December 2016, both parties renewed another Refined Oil Supply Agreement, subject to independent shareholders' approval at the special general meeting, that Yanchang Petroleum Group agreed to supply and Henan Yanchang agreed to purchase the refined oil for another three years starting from 1 January 2017. 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 2016

As at 31 December 2016, 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$38,779,000 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 asset approach is not adopted because it does not take future earning potential of Henan Yanchang and the Refined Oil Supply Agreement into consideration. Market approach is not adopted as Colliers have not identified sufficient market transactions which are comparable. 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 used was 20.1%. 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 mainly due to the decrease in refined oil price and refined oil supplied from Yanchang Petroleum Group.

Impairment test for the year ended 31 December 2015

As at 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

20. INTANGIBLE ASSET (Continued)

Impairment test for the year ended 31 December 2015 (Continued)

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 used was 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.

21. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 1 January 2015	12,439,284
Additions	38,812
Written off	(8,615)
Transfer to property, plant and equipment *(Note 17)*	(325)
Exchange differences	(10,598)
At 31 December 2015 and 1 January 2016	12,458,558
Additions	1,909
Disposals and written off	(14,323)
Transfer to property, plant and equipment *(Note 17)*	(5,886)
Exchange differences	1,751
At 31 December 2016	12,442,009
Accumulated impairment	
At 1 January 2015	8,274,121
Impairment loss recognised during the year	4,138,179
At 31 December 2015 and 1 January 2016	12,412,300
Impairment loss recognised during the year	2,143
At 31 December 2016	12,414,443
Carrying amount	
At 31 December 2016	**27,566**
At 31 December 2015	46,258

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For the year ended 31 December 2016

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 Exploration Block 2104 and the Exploration Block 3113 ("Two Exploration 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 Exploration 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 Exploration Block 3113 in Madagascar. Pursuant to the investment and co-operation agreement, the capital investment of the Exploration 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 the end of each reporting period.

The Group is required to assess at the end of each reporting period 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 Exploration Blocks

For the year ended 31 December 2016

The Two Exploration Blocks in Madagascar was fully impaired during the year ended 31 December 2015 and no impairment loss or reversal of impairment was recognised for the year ended 31 December 2016.

For the year ended 31 December 2015

In view of substantial time and resources have been put into the exploration works on the Two Exploration 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 Exploration Blocks in Madagascar.

To assess whether the Two Exploration 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 Exploration Blocks will expire on November 2017 and thereafter to be renewed is not certain. In addition, the estimated expenditure to further develop the Two Exploration Blocks is substantial. After taking into account of the above key factors, the technically feasibility or commercial viability of the Two Exploration Blocks are remote.

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For the year ended 31 December 2016

21. EXPLORATION AND EVALUATION ASSETS (Continued)

Since there are only prospective resources technically justified in the Two Exploration Blocks in Madagascar, the Group considered that there are no economic reserves in the Two Exploration 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 Exploration Blocks has been made for the year ended 31 December 2015.

Impairment test – E&E in Canada

For the year ended 31 December 2016

The Group assessed E&E in Canada for any indicators of impairment due to industry pricing fundamentals. Based on recent land sales and future drilling plans, the Group recognised an impairment loss of HK$2,143,000 as a result of decreasing land prices of recent land sales.

For the year ended 31 December 2015

The Group assessed the E&E in Canada for any indicators of impairment exist for the years ended 31 December 2015. 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.

22. AVAILABLE-FOR-SALE INVESTMENT

	2016 HK$'000	2015 HK$'000
Unlisted investment, equity securities		
At cost	–	196,072
Impairment loss recognised	–	(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 for the years ended 31 December 2016 and 31 December 2015.

The equity securities are stated at cost less impairment loss at the end of the reporting period. The equity securities were fully impaired in previous years.

During the year ended 31 December 2016, the Group disposed its available-for-sale investment at consideration of HK$1.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

23. GOODWILL

	2016 HK$'000	2015 HK$'000
Cost/carrying amount		
At the beginning and at 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 CGUs containing goodwill (2015: Nil).

The carrying amount of goodwill (net of impairment losses) at 31 December 2016 and 2015 allocated to the CGU is as follow:

	2016 HK$'000	2015 HK$'000
Trading and distribution of oil related products	**51,418**	51,418

The recoverable amount of the above CGU 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 18.8% (2015: 19.3%). Cash flows beyond 3-year period are extrapolated using a steady rate of 3% 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 CGU 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:

Trading and distribution of oil related products belongs to supply and procurement segment to the Group's business for the years ended 31 December 2016 and 31 December 2015.

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For the year ended 31 December 2016

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 operations of the Exploration Block 3113. The Group has 31% interests in the joint operation.

For the years ended 31 December 2016 and 31 December 2015, 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:

	2016	2015
	HK$'000	HK$'000
Assets	**1,734**	16,140
Liabilities	**(346)**	(243)

	2016	2015
	HK$'000	HK$'000
Income	**–**	–
Expenses	**(14,509)**	(34)

25. INVENTORIES

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

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26. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (2015: 90 days), are recognised and carried at the original invoiced amount less allowance for doubtful debt. Trade receivables are non-interest bearing.

The following is an aged analysis of trade receivables presented based on the invoice dates at the end of the reporting period:

	2016 HK$'000	2015 HK$'000
0 to 30 days	23,052	234,397
31 to 60 days	506	294
61 to 90 days	137	68
Over 90 days	427	2,025
	24,122	236,784

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$427,000 (2015: HK$2,025,000) were past due at the end of the reporting period for which the Group has not provided for impairment loss. The Group does not hold any collaterals or other credit enhancements over these balances.

Aging of trade receivables which are past due but not impaired is as follows:

	2016 HK$'000	2015 HK$'000
Over 90 days	427	2,025

27. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2016 HK$'000	2015 HK$'000
Prepaid lease payments *(Note 18)*	448	474
Prepayments to suppliers of refined oil products	98,411	97,399
Other prepayments	2,800	3,902
Other deposits	429	291
Other receivables	5,496	13,346
	107,584	115,412

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 2016 and 31 December 2015. The Group does not hold any collateral over these balances.

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28. DERIVATIVE FINANCIAL INSTRUMENTS

	2016 HK$'000	2015 HK$'000
Current liabilities		
Oil commodity contracts	–	35
Derivative components of convertible bonds *(Note 33)*	967	4,348
	967	4,383

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

At 31 December 2016 and 31 December 2015, 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 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

As at 31 December 2016, the Group did not have any outstanding oil and gas commodity contract.

29. CASH AND BANK BALANCES

Bank balances carry interest at market rates which range from 0.001% to 1.35% (2015: 0.001% to 1.35%) per annum.

Included in the cash and bank balances as at 31 December 2016 were amounts in RMB equivalent to HK$311,274,000 (2015: HK$268,361,000) which are not freely convertible into other currencies.

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For the year ended 31 December 2016

30. SHARE CAPITAL

	Number of shares		Share capital	
	2016	2015	**2016**	2015
	'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 and at the end of the year				
Ordinary shares of HK$0.02 each	**12,145,573**	12,145,573	**242,911**	242,911

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.

As at 31 December 2016, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 12,000,000 (2015: Nil), representing 0.1% (2015: Nil) of the total number of the shares of the Company in issue at 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 total number of the shares of the Company in issue at any time. Any future grant of share options in excess of this limit is subject to shareholders' approval in a general meeting.

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

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30. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme (Continued)

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 (2015: 684,557,304) shares (being not more than 10% of the total number of the shares in issue as at the date of adoption of the Scheme), representing 5.6% (2015: 5.6%) of the total number of shares in issue as at the date of this annual report.

Details of share options are as follows:

Date of grant	Vesting period	Exercise period	Exercise price
18 October 2016	From 18 October 2016 to 30 September 2017	From 1 October 2017 to 30 September 2026	HK$0.221

The following table discloses movements of the Company's share options held by the Director during the year:

			Number of share options			
Grantee	Date of grant	Exercise price HK$	Outstanding at 1 January 2016	Granted during the year	Exercised during the year	Outstanding at 31 December 2016
Director	18 October 2016	0.221	–	12,000,000	–	12,000,000
Exercisable at the end of the year						12,000,000
Weighted-average exercise price						0.221

During the year ended 31 December 2016, 12,000,000 share options were granted on 18 October 2016. The estimated fair values of the share options granted on 18 October 2016 is HK$1,511,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

30. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme (Continued)

The fair value was calculated using the Binomial Option pricing model. The inputs into the model were as follows:

	2016
Share price	HK$0.220
Exercise price	HK$0.221
Expected volatility	61.16%
Expected life	9.96 years
Risk-free rate	1.04%
Expected dividend yield	–

Expected volatility was determined with reference to the average of annualised historical weekly volatility of the Company as at 18 October 2016 (date of grant).

The Group recognised an expense of HK$327,000 (2015: Nil) in relation to share options granted by the Company for the year ended 31 December 2016.

31. TRADE AND OTHER PAYABLES

	2016 HK$'000	2015 HK$'000
Trade payables	23,548	291,773
Deposits received in advance from customers	216,612	110,099
Other payables	124,015	65,520
	364,175	467,392

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For the year ended 31 December 2016

31. TRADE AND OTHER PAYABLES (Continued)

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

	2016 HK$'000	2015 HK$'000
0 to 30 days	21,400	290,571
31 to 60 days	1,313	370
61 to 90 days	131	159
Over 90 days	704	673
	23,548	291,773

As at 31 December 2016 and 31 December 2015, 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 HK$2,873,000.

32. BANK BORROWINGS

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

	2016 HK$'000	2015 HK$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(Note (a))*	55,565	94,088
Secured bank borrowings *(Note (b))*	213,490	569,997
	269,055	664,085

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

	2016	2015
Floating rate	3.75–6.75%	3.75–6.00%

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For the year ended 31 December 2016

32. BANK BORROWINGS (Continued)

Notes:

(a) As at 31 December 2016, Henan Yanchang drawn unsecured bank borrowings of RMB50,000,000 (equivalent to HK$55,656,000) (2015: RMB80,000,000 (equivalent to HK$94,088,000)). 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 2016, Novus Energy Inc. ("Novus") drawn CAD 37,000,000 (equivalent to HK$213,490,000) against its CAD42,000,000 credit facilities in the form of bank acceptances.

As at 31 December 2015, Novus had CAD92,150,000 (equivalent to HK$514,197,000) drawn against its CAD110,000,000 revolving operating demand loan and CAD10,000,000 (equivalent to HK$55,800,000) against its CAD15,000,000 non-revolving term demand 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. Interest charges on the credit facility are based on a pricing grid system with interest rates ranging from 2.00 to 4.50% over the bank's prime lending rate (31 December 2015: 1.00% to 3.50% over the bank's prime lending rate); bankers' acceptances stamping fees ranging from 3.00% to 5.50% (31 December 2015: 2.00% to 4.50%); letters of credit/guarantee fees ranging from 3.00% to 5.50% (31 December 2015: 2.00% to 4.50%); and standby fees ranging from 0.5% to 1.125% (31 December 2015: 0.5% to 1.125%), all depending on a net debt to annualised quarterly cash flow ratio ranging from less than or equal to 1:1 up to greater than 4:1 (31 December 2015: net debt to cash flow ratio ranging from less than or equal to 1:1 up to greater than 4:1).

As at 31 December 2016, interest on the revolving operating demand loan was charged at prime plus 3.0% per annum (31 December 2015: prime rate plus 1.75% per annum), bankers' acceptances stamping fees were 4.00% per annum (31 December 2015: 2.75% per annum), letters of credit/guarantee fees were 4.00% per annum (31 December 2015: 2.75% per annum), and standby fees were 0.75% per annum (31 December 2015: 0.6875% per annum).

As at 31 December 2015, interest on the non-revolving term demand loan was charged at 2.00% above that of the revolving operating demand loan.

The credit facility is secured by a general assignment of book debts and a CAD200,000,000 debenture with a floating charge over all assets of Novus, with a negative pledge and undertaking to provide fixed charges on oil and natural gas reserves upon request. The credit facility is subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1, where for the purpose of the covenant, outstanding bank debt and the fair value of any commodity contracts are excluded from current liabilities and the unused portion of the revolving operating demand loan is added to current assets. As at 31 December 2016, the ratio was 1.3:1 (31 December 2015: the ratio was 2.7:1).

The effective interest rate for the bank debt was approximately 5.9% for the year ended 31 December 2016 (2015: 3.5%).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

33. CONVERTIBLE BONDS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000 (the "Convertible Bonds"). The Convertible Bonds bear annual interest rate of 5% and mature on the date falling on the third anniversary of the date of issuance. The 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 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 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 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 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 (the "Early Redemption Date"), notify the Company in writing 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. The Company shall not be entitled to early redeem the Convertible Bonds before the maturity date.

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

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33. CONVERTIBLE BONDS (Continued)

On 1 April 2016, the Company and the bondholder entered into a supplemental deed (the "Supplemental Deed") whereby the parties agreed to amend certain terms and conditions under the subscription agreement and the instrument executed by the Company on 23 December 2015 constituting the Convertible Bonds.

The principal terms of the subscription agreement and Convertible Bonds as amended pursuant to the Supplemental Deed are summarised as follows:

Interest:	7% per annum on the outstanding principal amount of the Convertible Bonds, which shall be payable by the Company to the bondholder in arrears semi-annually from the issue date until the date on which the Convertible Bonds are redeemed.
Redemption upon maturity:	The Company will redeem on the maturity date the Convertible Bonds in an amount equal to the sum of the aggregate principal amount of the Convertible Bonds then outstanding plus a premium representing an interest rate of 3% per annum on the principal amount of the Convertible Bonds together with all accrued and outstanding interests.
Early redemption at the option of the bondholder:	Unless previously redeemed, converted or cancelled, the bondholder may, at its option and within a month after the Early Redemption Date, notify the Company in writing 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 3% on the relevant principal amount together with all accrued and outstanding interest calculated from the issue date to the Early Redemption Date.
Specific covenants:	The Company undertakes to comply with the following specific covenants as amended at all times until the date when all the Convertible Bonds have been converted into conversion share(s) or the Company has redeemed all the Convertible Bonds (whichever is earlier): (1) maintaining the net assets value of the Company at no less than HK$1.2 billion; (2) maintaining the ratio of total assets value to net assets value of the Company at no more than 2.5 times; (3) maintaining the ratio of net interest-bearing debt to net assets value of the Company at no more than 100%. For the avoidance of doubt, the other specific covenants remain unchanged.

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33. CONVERTIBLE BONDS (Continued)

As the weighted average price of the shares for the ten consecutive trading days before the first anniversary of the issuance of the Convertible Bonds (i.e. 22 December 2016) is HK$0.2194, the conversion price of the Convertible Bonds was adjusted to HK$0.36 per share with effect from 23 December 2016.

The Convertible Bonds contain two components, liability component and derivative financial liabilities component.

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:

	HK$'000
Liability component at date of issue	353,430
Imputed interest charged *(Note 13)*	754
Interest payable	(392)
Liability component at 31 December 2015 and 1 January 2016	353,792
Imputed interest charged *(Note 13)*	35,835
Interest payable	(23,324)
Liability component at 31 December 2016	**366,303**

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33. CONVERTIBLE BONDS (Continued)

Derivative financial liabilities component:

	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 and 1 January 2016	2,710	1,638	4,348
Fair value change *(Note 9)*	(1,743)	14,735	12,992
Recognition of convertible bonds reserve	–	(16,373)	(16,373)
Derivative financial liabilities component at 31 December 2016	**967**	**–**	**967**

The key inputs used for the calculation of the fair value of the derivative financial liabilities components of the Convertible Bonds are as follows:

	At 22 December 2016	**At 31 December 2016**	At 23 December 2015	At 31 December 2015
Time to maturity	**2 years**	**1.98 years**	3 years	2.98 years
Share price	**HK$0.218**	**HK$0.223**	HK$0.17	HK$0.15
HKD/USD exchange rate	**7.75**	**7.75**	7.75	7.75
Conversion price	**HK$0.40**	**HK$0.36**	HK$0.40	HK$0.40
Expected share price volatility	**46.30%**	**46.17%**	36.69%	37.32%
Risk-free rate	**1.19%**	**1.17%**	1.30%	1.30%
Discount rate	**10.15%**	**10.38%**	10.28%	10.25%

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33. CONVERTIBLE BONDS (Continued)

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. Pursuant to the Supplemental Deed, the premium representing an annual interest rate was changed from 5% per annum to 3% per annum. As at 31 December 2016, the fair value of redemption options was HK$967,000 (2015: HK$2,710,000).

(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. The adjusted conversion price should not be lower than 90% of the conversion price. As at 31 December 2015, the derivatives arising from change in conversion price of Convertible Bonds was HK$1,638,000.

As 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 of the Convertible Bonds was adjusted to HK$0.36 per share with effect from 23 December 2016, and the derivatives arising from change in conversion price of Convertible Bonds of HK$16,373,000 was transferred to Convertible Bonds reserve on that date.

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For the year ended 31 December 2016

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:

	2016 **HK$'000**	2015 HK$'000
At the beginning of the year	**91,060**	111,227
Change in risk-free interest rate adopted	**8,125**	–
Liabilities incurred	**2,405**	792
Liabilities acquired on property acquisitions	**2,123**	–
Liabilities settled	**(4,654)**	(3,623)
Liabilities extinguished on property dispositions	**(1,959)**	(1,936)
Accretion expense *(Note 13)*	**2,241**	2,886
Exchange differences	**3,030**	(18,286)
At the end of the year	**102,371**	91,060

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD25,602,000 (equivalent to HK$147,724,000) (2015: CAD25,700,000 (equivalent to HK$143,406,000)). The obligations were calculated using a risk-free interest rate of 2.30% (2015: 3.25%) and an inflation rate of 2% (2015: 2%). The risk-free interest rate adopted was reference to the Bank of Canada Benchmark bond rate. It is expected that the obligations will be funded from Novus's general resources at the time the costs are incurred with the majority of costs expected to occur between 2020 and 2037.

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35. DEFERRED TAX ASSETS/(LIABILITIES)

	2016 HK$'000	2015 HK$'000
Deferred tax assets	**70,625**	–
Deferred tax liabilities	**(14,188)**	(16,555)
	56,437	(16,555)

	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$'000	Tax assets not recognised HK$'000	Total HK$'000
At 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 and 1 January 2016	(135,450)	(1,696)	(4,278)	(11,962)	(1,226)	24,586	150,490	(37,019)	(16,555)
Credited/(debited) to profit or loss during the year *(Note 14)*	24,428	–	(157)	9,695	1,279	2,236	34,545	–	72,026
Exchange differences	(4,197)	93	153	585	(53)	818	4,827	(1,260)	966
At 31 December 2016	**(115,219)**	**(1,603)**	**(4,282)**	**(1,682)**	**-**	**27,640**	**189,862**	**(38,279)**	**56,437**

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2016 (2015: Nil).

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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$444,000 for the year ended 31 December 2016 (2015: HK$493,000) represented contributions payable to the above schemes by the Group.

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37. OPERATING LEASES

The Group as lessee

	2016 HK$'000	2015 HK$'000
Minimum lease payments paid under operating leases during the year	**7,819**	8,561

At the end of the reporting period, the Group had commitments for future minimum lease payments under non-cancellable operating leases which fall due as follows:

	2016 HK$'000	2015 HK$'000
Within one year	**8,432**	6,512
In the second to fifth years inclusive	**11,064**	6,362
	19,496	12,874

The Group leased office properties, staff quarters and lands under operating lease arrangements. Lease for office properties are negotiated for a term of 3 to 4 years and leases for the staff quarters and lands are negotiated for terms ranging from 0.5 years to 10 years.

The Group as lessor

Property rental income earned during the year was HK$1,566,000 (2015: HK$1,828,000). All of the properties held had committed tenants for the next year.

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

	2016 HK$'000	2015 HK$'000
Within one year	**1,419**	1,311
In the second to fifth years, inclusive	**1,227**	2,110
Over five years	**–**	46
	2,646	3,467

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

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For the year ended 31 December 2016

38. COMMITMENTS

The Group had capital commitments to pay property, plant and equipment amounted to HK$18,814,000 (2015: HK$19,331,000) which were contracted but not provided for as at 31 December 2016.

39. CONTINGENT LIABILITIES

As at 31 December 2016, the Group had no material contingent liabilities (2015: Nil).

40. 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

	2016 HK$'000	2015 HK$'000
Salaries and allowances	9,416	6,315
Share-based payment expenses	327	–
Pension scheme contributions	30	30
	9,773	6,345

During the year ended 31 December 2016, the Group had the following connected transactions with a related party:

Name of related party	Relationship	Nature of transactions	2016 HK$'000	2015 HK$'000
Yanchang Petroleum Group	A substantial shareholder	Supply of refined oil	740,182	2,358,345

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".

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2016 were as follows:

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid-up share/ registered capital	Percentage of ownership interests and voting power held by the Company		Principal activities
			Directly	Indirectly	
Dolaway Group Limited	British Virgin Islands ("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 and paid-up capital of RMB30,000,000	–	100	Investment holding
Xian Guotai Basic Energy Development Co., Limited	PRC	Registered and paid-up capital of RMB25,500,000	–	100	Investment holding
Henan Yanchang	PRC	Registered and paid-up capital of 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 and paid-up capital of RMB50,000,000	–	70	Transportation of refined oil
Noble Soar Limited	BVI	Ordinary US$1	100	–	Investment holding

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF SUBSIDIARIES (Continued)

(a) General information of subsidiaries (Continued)

Name of subsidiary	Place of incorporation/ establishment	Nominal value of issued and fully paid-up share/ registered capital	Percentage of ownership interests and voting power held by the Company		Principal activities
			Directly	Indirectly	
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 CAD298,400,594	–	100	Investment holding
Novus	Canada	Common CAD191,671,475	–	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

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

None of the subsidiaries had issued any debt securities at the end of the year.

(b) Details of non-wholly owned subsidiaries that have material non-controlling interests

The table below shows details of non-wholly owned subsidiaries of the Group that have material non-controlling interests:

Name of subsidiary	Place of incorporation and principal place of business	Proportion of ownership interests and voting power held by non-controlling interests		(Loss)/profit allocated to non-controlling interests		Accumulated non-controlling interests	
		2016	2015	**2016 HK$'000**	2015 HK$'000	**2016 HK$'000**	2015 HK$'000
Henan Yanchang	PRC	**30%**	30%	**(2,301)**	18,267	**88,042**	95,363
Henan Yanchang Energy	PRC	**30%**	30%	**(269)**	(34)	**16,342**	17,578

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang

	2016 HK$'000	2015 HK$'000
Current assets	431,502	646,553
Non-current assets	157,261	207,851
Current liabilities	(282,623)	(513,105)
Non-current liabilities	(12,666)	(23,421)
Equity attributable to the owners of the Company	205,432	222,515
Non-controlling interests	88,042	95,363
Revenue	20,369,188	22,949,141
Cost of sales	(20,305,987)	(22,803,665)
Expenses	(70,871)	(84,586)
(Loss)/profit for the year attributable to the owners of the Company	(5,369)	42,623
(Loss)/profit for the year attributable to the non-controlling interests	(2,301)	18,267
(Loss)/profit for the year	(7,670)	60,890
Other comprehensive loss for the year attributable to the owners of the Company	(12,436)	(12,148)
Other comprehensive loss for the year attributable to the non-controlling interests	(5,236)	(5,207)
Other comprehensive loss for the year	(17,672)	(17,355)
Total comprehensive (loss)/income for the year attributable to the owners of the Company	(17,805)	30,475
Total comprehensive (loss)/income for the year attributable to the non-controlling interests	(7,537)	13,060
Total comprehensive (loss)/income for the year	(25,342)	43,535
Dividend paid to non-controlling interests	–	(5,810)
Net cash inflow from operating activities	111,731	137,119
Net cash outflow from investing activities	(6,084)	(5,563)
Net cash outflow from financing activities	(62,817)	(105,036)
Net cash inflow	42,830	26,520

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

41. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang Energy

	2016 HK$'000	2015 HK$'000
Current assets	3,028	4,166
Non-current assets	129,218	129,502
Current liabilities	(77,771)	(75,076)
Equity attributable to the owners of the Company	38,132	41,014
Non-controlling interests	16,342	17,578
Revenue	–	178
Expenses	(897)	(291)
Loss for the year attributable to the owners of the Company	(628)	(79)
Loss for the year attributable to the non-controlling interests	(269)	(34)
Loss for the year	(897)	(113)
Other comprehensive loss for the year attributable to the owners of the Company	(3,220)	(2,508)
Other comprehensive loss for the year attributable to the non-controlling interests	(967)	(1,075)
Other comprehensive loss for the year	(4,187)	(3,583)
Total comprehensive loss for the year attributable to the owners of the Company	(3,848)	(2,587)
Total comprehensive loss for the year attributable to the non-controlling interests	(1,236)	(1,109)
Total comprehensive loss for the year	(5,084)	(3,696)
Net cash inflow from operating activities	4,817	27,011
Net cash outflow from investing activities	(6,905)	(33,352)
Net cash inflow/(outflow) from financing activities	1,147	(63)
Net cash outflow	(941)	(6,404)

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2016 HK$'000	2015 HK$'000
Assets		
Non-current assets		
Interests in subsidiaries	**1,601,583**	1,380,657
Property, plant and equipment	**31**	77
	1,601,614	1,380,734
Current assets		
Prepayments and other receivables	**517**	1,278
Cash and bank balances	**224,815**	573,429
	225,332	574,707
Total assets	**1,826,946**	1,955,441
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	**242,911**	242,911
Reserves	**872,910**	1,039,255
Total equity	**1,115,821**	1,282,166
Liabilities		
Current liabilities		
Amount due to a subsidiary	**311,069**	311,084
Other payables	**32,786**	4,051
Derivative financial instruments	**967**	4,348
	344,822	319,483
Non-current liabilities		
Convertible bonds	**366,303**	353,792
Total liabilities	**711,125**	673,275
Total equity and liabilities	**1,826,946**	1,955,441
Net current (liabilities)/assets	**(119,490)**	255,224
Total assets less current liabilities	**1,482,124**	1,635,958

The Company's statement of financial position was approved and authorised for issue by the board of Directors on 30 March 2017 and are signed on its behalf by:

Mr. Li Yi
Chairman

Mr. Bruno Guy Charles Deruyck
Chief Executive Officer

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2016

42. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

(Continued)

Movement in the Company's reserves

	Share premium HK$'000	Contributed surplus HK$'000	Share options reserve HK$'000	Convertible bond reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 and 1 January 2016	1,763,060	6,454,818	–	–	(7,178,623)	1,039,255
Recognition of convertible bonds reserve	–	–	–	16,373	–	16,373
Recognition of share-based payment expenses	–	–	327	–	–	327
Loss and total comprehensive loss for the year	–	–	–	–	(183,045)	(183,045)
At 31 December 2016	**1,763,060**	**6,454,818**	**327**	**16,373**	**(7,361,668)**	**872,910**

43. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 30 March 2017.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2016 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%