延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346

2017 ANNUAL REPORT

GROW BEYOND BOUNDARIES TOWARDS GREATER SUCCESS


延长石油
G-16-Q

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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi *(Chairman)*
Mr. Bruno Guy Charles Deruyck *(Chief Executive Officer)*
Ms. Sha Chunzhi
Mr. Gao Hairen
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

KPMG
Certified Public Accountants
8th Floor, Prince's Building
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Central, Hong Kong

REGISTERED OFFICE

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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
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Hong Kong

STOCK CODE

00346

WEBSITE

www.yanchanginternational.com

CHAIRMAN'S STATEMENT

With international oil prices rebounding towards the end of the year, the operations and financial performance of Yanchang Petroleum International Limited (the "Company") and its subsidiaries ("the Group") continued to improve in 2017. The oil and gas producing business of Novus Energy Inc. ("Novus") successfully managed a turnaround to profit, and the refined oil trading business of Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") generated stable cash flows and profit, resulting in a significant reduction of overall loss of the Group by HK$212 million as compared with that in 2016.

I. UPSTREAM OIL AND GAS PRODUCING BUSINESS IN CANADA

In 2017, Novus achieved an average daily production of 2,893 barrels of equivalent ("BOE"). As the management team has put best effort to implement measures for cost reduction and operational efficiency enhancement and attached great importance to technical studies as the driving force of Novus business, the refrac program for the existing old wells and the exploration of new oil play achieved impressive results, allowing Novus to manage a turnaround to profit.

For operational management, the actual per barrel operating and transportation costs was CAD13 which remained at a lower level than peers in the region. For administration costs, the management exercised due care and strictly controlled targets within budget by a number of measures, such as key performance objective program, headcounts reduction and restructuring job positions, giving rise to a decrease in administrative expenses of CAD1.26 million in total in 2017, representing a 24% reduction versus the budget.

In 2017, drilling of 31 new wells and refrac of 10 existing old wells were completed. The production volume increased by 19% as compared with that in 2016 even though the capital expenditure reduced by CAD8.8 million versus the budget. Novus has attached utmost weight to optimization of development solution as well as technological know-how for production enhancement of new wells. The management team deployed its skills and advanced technical capabilities for effective development of the oilfields. According to the two assessments on producing wells within the Viking oil play done by the National Bank of Canada in April to June and in August to October 2017, respectively, the independent assessment report on the industry indicated that Novus accounted for 3 of the 15 top producing wells in the Viking oil play.

Based on the foundation of the existing one exploration well, Novus has achieved a significant breakthrough having newly drills of two horizontal wells in the Success oil play in Saskatchewan in May 2017. Initial daily production volume of one of the wells was in excess of 200 barrels with 12,000 barrels in total for the year, becoming the top producing well of the Success oil play. Such breakthrough makes significant contribution to technological development of the Success oil play, and yet also provides solid support for future expansion of production and reserve for Novus. Novus estimates that this will expand the daily production volume of Novus to over 4,000 barrels in the coming five years.

II. DOWNSTREAM REFINED OIL TRADING BUSINESS IN THE PEOPLE'S REPUBLIC OF CHINA ("THE PRC")

In 2017, Henan Yanchang achieved sales of 2.78 million tonnes of refined oil, with revenue of RMB13.8 billion and profit of RMB19.79 million. Recovery of receivables was 100%. Integrated controls on production and financial operations have been conducted in a safe and efficient manner with no accidents reported.

As affected by the economic slowdown, market prices of refined oil and the demand for refined oil in the PRC remained sluggish during the year. The management of Henan Yanchang has cautiously coped with challenges by duly performing all operational targets and missions for the year. The major measures and achievements adopted by Henan Yanchang are as follows:

1. Sales Strategies

Firstly, Henan Yanchang has vigorously taken targeted approach to sales, achieving positive performance in sales of refined oil at highway sales. In 2016, there was only one highway sales spot set up in Lintong with an annual sales volume of 4,000 tonnes. Three highway sales spots were erected in Yanlian, Jingbian and Yongping during the year under review. In 2017, the sales volume was 60,000 tonnes, representing an increase of nearly 15 times compared with that in 2016. Secondly, Henan Yanchang has conducted closer cooperation with strategic customers to achieve win-win outcome. In 2017, Henan Yanchang secured a long-term strategic cooperation with SINOPEC Henan Oilfield Branch Company and Yanchang Shell (Henan) Petroleum Co. Thirdly, Henan Yanchang has strengthened its market research to effectively expand customer base. Henan Yanchang has strengthened the market research by dividing a region into areas and subdividing customer categories and structures, in order to conduct on-site research and study on target markets. As at the end of 2017, there were 216 newly developed customers.

2. Corporate Reforms

Firstly, Henan Yanchang has launched a remuneration enhancement to effectively motivate staff for better results and staff remuneration is completely pegged to their performance in order to drive higher sales performance. Secondly, Henan Yanchang has intensified reforms on sales model by launching management of customers in categories and adopting a number of measures to digest inventory. Thirdly, Henan Yanchang has sub-contracted out certain business and operation with significant effectiveness.

III. OUTLOOK

At the outset of the "Belt and Road" Initiative, there are strategic opportunities for the Company to grasp. Alongside the gradual recovery of the oil and gas industry, the Company is seeking for merger and acquisition opportunities and focusing on the oil and gas producing projects with large potentials for development and enhancement. By virtue of expertise and global vision in the oil and gas industry the Company has, together with the financial and technical supports from the major shareholder Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"), the board of directors (the "Board") is confident that the Company will be able to create valuable returns to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW

Highlights on financial results

	2017	2016	Change in
	HK$'000	HK$'000	%
Revenue	**16,724,658**	20,568,871	(19%)
Other revenue	**14,487**	12,825	13%
Purchases	**(16,354,663)**	(20,305,987)	(19%)
Royalties	**(32,236)**	(19,216)	68%
Field operation expenses	**(80,672)**	(67,169)	20%
Exploration and evaluation expenses	**(4,127)**	(17,581)	(77%)
Selling and distribution expenses	**(6,759)**	(4,241)	59%
Administrative expenses	**(85,899)**	(85,612)	–
Depreciation, depletion and amortisation	**(170,626)**	(122,996)	39%
Other losses	**(438)**	(233,138)	(100%)
Finance costs	**(53,376)**	(57,073)	(6%)
Taxation	**(8,974)**	61,025	N/A
Loss for the year	**(58,625)**	(270,292)	(78%)
Basic and diluted loss per share, HK cents	**(0.54)**	(2.20)	(75%)

Segment revenue and segment results

For the year under review, the Group's operating segments were comprised of (i) exploration, exploration and operation business, and (ii) supply and procurement business. During the year ended 31 December 2017, the Group's turnover was derived from the production of oil and natural gas in Canada as well as the trading of refined oil in the PRC.

Novus is engaged in the business of exploration, exploitation and production of oil and natural gas in Western Canada. Novus achieved production of oil and gas of 1,055,000 BOE and contributed production income of HK$316,011,000 during the year under review as compared to production of 880,000 BOE and production income of HK$199,683,000 of the previous year. Despite the low international oil prices environment in 2017, Novus successfully managed a turnaround through remarkable operational efficiency enhancement as well as various cost reduction initiatives. A segment operating profit of HK$10,164,000 achieved this year, in contrast of a loss of HK$37,966,000 in the previous year.

Due to a decrease in sales volume from the previous year of 4.20 million tonnes to this year of 2.78 million tonnes, the revenue of refined oil trading business of Henan Yanchang decreased by 19% from the previous year of HK$20,369,188,000 to this year of HK$16,408,647,000 and contributed a segment operating profit of HK$17,379,000 as compared to a profit of HK$20,851,000 in the previous year.

FINANCIAL REVIEW (Continued)

Other revenue

Apart from the aforesaid segment results, other revenue of HK$14,487,000 which mainly represented interest income from bank deposits and rental income from the PRC investment properties was recorded for the year under review, similar to that of the previous year.

Purchases

Purchases were wholly derived from the refined oil trading business of Henan Yanchang in the PRC, which decreased from the previous year of HK$20,305,987,000 to this year of HK$16,354,663,000. The decrease of purchases was consistent with the drop in sales of the refined oil trading business.

Royalties

Royalties, including crown, freehold and overriding royalties incurred by Novus for the oil and natural gas production in Canada, increased from the previous year of HK$19,216,000 to the current year of HK$32,236,000 was due to the increase in sales price and volume.

Field operation expenses

Due to the increase in production volume, field operation expenses increased to this year of HK$80,672,000 from the previous year of HK$67,169,000. Such expenses were incurred by Novus in the production of oil and natural gas in Canada, which included labour costs, repairs and maintenance, processing costs, fluid hauling, lease rentals and workovers etc.

FINANCIAL REVIEW (Continued)

Exploration and evaluation expenses

Exploration and evaluation expenses amounted to HK$4,127,000 which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus. Compared to the previous year of HK$17,581,000, the significant decrease in such expenses was due to no exploration expenses incurred for the Madagascar project during the year.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous year of HK$4,241,000 to the current year of HK$6,759,000. Such increase in the expenses was mainly incurred by Novus due to the escalated use of truck services to make up pipeline downtime in the oilfields caused by the extreme cold weather in Canada during fourth quarter of the year.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, amounted to HK$85,899,000 this year, similar to that of the previous year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK$122,996,000 to the current year of HK$170,626,000. This was mainly due to the increase in depletion of petroleum and natural gas properties incurred by Novus as a result of the increase in production during the year under review.

Other losses

Other losses significantly reduced to this year of HK$438,000 from the previous year of HK$233,138,000 which was mainly attributable to the impairment of the oil and gas assets.

FINANCIAL REVIEW (Continued)

Finance costs

Finance costs amounted to HK$53,376,000 comprising of (i) bank borrowing costs of HK$13,918,000 related to the businesses of Novus and Henan Yanchang, (ii) accretion of HK$2,462,000 related to the provision of the decommissioning liabilities incurred by Novus, and (iii) imputed interest on convertible bonds of HK$36,996,000 arisen from the issue of 3-year convertible bonds with principal amount of US$46,300,000.

Taxation

Taxation of HK$8,974,000 comprising of (i) provision for Canada resources surcharge on the production income of the oil and gas business of Novus amounted to HK$4,978,000; (ii) provision for the PRC enterprise income tax on the profit earned from the refined oil trading business of Henan Yanchang amounted to HK$7,459,000; and (iii) deferred tax credit amounted to HK$3,463,000.

Loss for the year

Under the circumstance of international oil prices rebounding towards the end of 2017, the oil and gas producing business in Canada as well as the refined oil trading business in the PRC performed well and contributed to alleviate the loss of the Group. The Group recorded a significantly reduced overall loss of HK$58,625,000 for the year under review, as compared to a loss of HK$270,292,000 in the previous year.

FINANCIAL REVIEW (Continued)

Highlights on financial position

	2017 HK$'000	2016 HK$'000	Change in %
Property, plant and equipment	**1,916,629**	1,690,356	13%
Prepaid lease payments	**16,911**	16,124	5%
Investment properties	**21,760**	28,970	(25%)
Exploration and evaluation assets	**31,108**	27,566	13%
Goodwill and intangible asset	**58,149**	58,149	–
Inventories	**54,214**	8,441	542%
Trade receivables	**127,657**	24,122	429%
Prepayments, deposits and other receivables	**353,859**	107,584	229%
Cash and bank balances	**207,998**	610,283	(66%)
Derivative financial instruments	**–**	(967)	(100%)
Trade and other payables	**(445,583)**	(364,175)	22%
Bank borrowings	**(295,527)**	(269,055)	10%
Convertible bonds	**(376,553)**	(366,303)	3%
Decommissioning liabilities	**(139,575)**	(102,371)	36%

FINANCIAL REVIEW (Continued)

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress. The increase in assets for the year was mainly attributable to the capital expenditure incurred for new drills and refracs by Novus.

Prepaid lease payments

Prepaid lease payments represented the leasehold lands in the PRC owned by Henan Yanchang. The slight increase in the amount represented mainly the fluctuation in exchange rate during the year.

Investment properties

Investment properties comprised gas stations and properties in the PRC owned by Henan Yanchang leased out in return of receiving rental income.

Exploration and evaluation assets

Exploration and evaluation assets represented mainly the undeveloped land held by Novus as at 31 December 2017.

Goodwill and intangible asset

Goodwill and intangible asset was arisen on the acquisition of 70% interest in Henan Yanchang by the Group in 2011. The goodwill and intangible asset represented the purchase premium and the valuation of the refined oil supply agreement signed between Henan Yanchang and Yanchang Petroleum Group. No impairment had been made for such asset during the year, hence the amount 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 2017.

Trade receivables

Trade receivables represented account receivables from both customers of Novus in Canada and Henan Yanchang in the PRC as at 31 December 2017. The increase of HK$103,535,000 of the trade receivables was mainly arising from the account receivables of Henan Yanchang recorded at the year end, such amounts had been fully recovered in January 2018.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables significantly increased to this year of HK$353,859,000 from the previous year of HK$107,584,000. Such increase was mainly due to the increase in prepayments made for the purchase of refined oil by Henan Yanchang for its refined oil trading business.

FINANCIAL REVIEW (Continued)

Cash and bank balances

As at 31 December 2017, cash and bank balances decreased to HK$207,998,000 from the previous year of HK$610,283,000. This was mainly due to the increase in prepayments to the refined oil suppliers, trade receivables and inventories incurred by Henan Yanchang during the year.

Trade and other payables

Trade and other payables mainly represented prepayments received in advance from customers of Henan Yanchang as at 31 December 2017.

Bank borrowings

The amount represented loans from banks of the PRC to finance the refined oil trading business of Henan Yanchang and a revolving loan from a bank in Canada to finance the oil and gas producing business of Novus.

Convertible bonds

The amount represented the 3-year convertible bonds with coupon interest rate of 7% issued in December 2015.

Decommissioning liabilities

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

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings for the year ended 31 December 2017.

	2017 **HK$'000**	2016 HK$'000
Current assets	**743,728**	750,430
Total assets	**2,863,908**	2,642,220
Current liabilities	**1,118,340**	635,048
Total liabilities	**1,269,262**	1,117,910
Total equity	**1,594,646**	1,524,310
Gearing ratio	**79.6%**	73.3%
Current ratio	**66.5%**	118.2%

LIQUIDITY AND FINANCIAL RESOURCES (Continued)

The Group had outstanding variable interest rates bank borrowings amounted to HK$295,527,000 as at 31 December 2017 (31 December 2016: HK$269,055,000) which comprised (i) HK$59,945,000 (equivalent to RMB50,000,000) under Henan Yanchang and (ii) HK$235,582,000 (equivalent to CAD37,875,000) under Novus. The Group has obtained bank facilities of HK$599,450,000 (equivalent to RMB500,000,000) from banks in the PRC and of HK$261,240,000 (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 principal of convertible bonds was still outstanding as at 31 December 2017.

As at 31 December 2017, the Group has cash and bank balances of HK$207,998,000 (31 December 2016: HK$610,283,000). In view of the cash on hand together with the available bank facilities, the Group has enough working capital to finance its business operation.

As at 31 December 2017, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 79.6% as compared to 73.3% of the previous year. The current ratio of the Group, measured on the basis of current assets as a percentage of current liabilities stood at 66.5% as at 31 December 2017 (31 December 2016: 118.2%).

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 2017, Novus had entered four 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 2017.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2017.

CAPITAL COMMITMENTS

As at 31 December 2017, the Group had commitments related to property, plant and equipment amounted to HK$29,161,000 (31 December 2016: HK$18,814,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2017.

PLEDGE OF ASSETS

The Group's CAD42,000,000 (31 December 2016: CAD42,000,000) banking facility, 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 2016: Nil).

CONTINGENT LIABILITIES

As at 31 December 2017, the Group did not have any significant contingent liabilities (31 December 2016: Nil).

LITIGATION

As at 31 December 2017, the Group had no material litigation (31 December 2016: Nil).

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2017, the Group's total number of staff was 142 (2016: 130). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2017 amounted to HK$57,988,000 (2016: HK$55,340,000). 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. 63,000,000 share options were granted to a director under the Company's share option scheme during the year ended 31 December 2017 (31 December 2016: 12,000,000 share options).

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2017 (31 December 2016: Nil).

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 2017 and 2016.

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 the 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 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 to evaluate the Group's estimation on proved and probable reserves as at 31 December 2017 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 2017	9,705.1	15,526.0	12,292.8
Acquisition	2,272.7	2,173.0	2,634.8
Production	(841.9)	(1,100.0)	(1,025.2)
Disposals	(2.8)	(185.0)	(33.6)
Discoveries & revisions	(144.9)	1,125.0	42.5
At 31 December 2017	10,988.2	17,539.0	13,911.3

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 2017	5,024.2	8,479.0	6,437.4
Acquisition	658.3	859.0	801.4
Disposals	(0.5)	(37.0)	(6.6)
Discoveries & revisions	(403.0)	(1,101.0)	(586.6)
At 31 December 2017	5,279.0	8,200.0	6,645.6

Net proved + probable reserves	Canada		
	Oil and natural gas liquids (Mbbl)	**Natural gas** (MMcf)	**Total** (Mboe)
At 1 January 2017	14,729.3	24,005.0	18,730.2
Acquisition	2,931.0	3,032.0	3,436.2
Production	(841.9)	(1,100.0)	(1,025.2)
Disposals	(3.3)	(222.0)	(40.2)
Discoveries & revisions	(547.9)	24.0	(544.1)
At 31 December 2017	16,267.2	25,739.0	20,556.9

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

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	Madagascar
Exploration activities:	Nil	Nil
Development activities:	31 wells drilled 31 wells completed 10 wells refracted	Nil
Production activities:	Average daily net production Oil: 2,405 bbls Gas: 2,925 mcf	Nil

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

The following table summarised the Group's share of costs incurred on exploration, development and production activities for the year ended 31 December 2017:

	Canada HK$'000	Madagascar HK$'000	Total HK$'000
Exploration costs	4,127	–	4,127
Developments costs	262,554	–	262,554
Production costs *(note)*	80,671	–	80,671

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 54, was appointed as an executive Director and Chairman of the Board on 12 January 2016. He was also appointed as the authorised 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.

Mr. Li is currently an authorised representative of the Company and is also currently a director of certain subsidiaries of the Company. 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 62, 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.

EXECUTIVE DIRECTORS (Continued)

Ms. Sha Chunzhi

Aged 44, was appointed as an executive Director on 2 December 2016. Ms. Shan 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. Gao Hairen

Aged 51, is currently the executive director, general manager and the deputy secretary of the Party Committee of Shaanxi Yanchang Petroleum International Exploration and Development Engineering Co., Limited. Mr. Gao joined Yanchang Petroleum Group in July 1989 and worked in research and development section. He was the project manager of the department of petroleum exploration and development of Yanchang Petroleum Administration Bureau. Mr. Gao worked in Shaanxi Yanchang Petroleum Exploration Company during 2007 to 2016 as chief geologist and promoted to deputy general manager. Mr. Gao graduated from Central South University of Technology with a bachelor's degree of geophysical prospecting, and is a senior engineer. Mr. Gao has extensive experience and professional knowledge in oil and gas exploration and exploitation; he has also obtained various scientific research achievements in oil and gas exploration and exploitation areas. Save as the aforesaid, Mr. Gao did not hold any directorship in other listed companies during the past three years.

Mr. Li Jun

Aged 40, was appointed as an executive Director on 12 January 2016. Mr. Li is currently the department head of 國際合作部 (International Cooperation Department) of Yanchang Petroleum Group. Mr. Li Jun has worked with the said department since May 2008 and was successively the supervisor and the deputy department head. Mr. Li has been involved in foreign investment and cooperation for a considerable period of time and possesses solid experience in external cooperation and project management. He obtained a bachelor's degree and a master's degree in microelectronics and solid-state electronics from 西安電子科技大學 (Xidian University) in Xian. He is also a senior engineer. Save as the aforesaid, Mr. Li did not hold any directorship in other listed companies during the past three years.

EXECUTIVE DIRECTORS (Continued)

Mr. Tan Meng Seng

Aged 46, 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 48, 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 43, 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 17 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 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. Mr. Leung has also been appointed as an independent non-executive director of Most Kwai Chung Limited (a company listed on the Stock Exchange) since March 2018. Save as the aforesaid, Mr. Leung did not hold any directorship in other listed companies in the past three years.

Mr. Sun Liming

Aged 64, 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.

INDEPENDENT NON-EXECUTIVE DIRECTORS (Continued)

Dr. Mu Guodong

Aged 60, was appointed as an independent non-executive Director on 28 December 2012. Dr. Mu was graduated from the School of Economics and Finance of Xi'an Jiaotong University (formerly known as "Shaanxi Institute of Finance & Economics") with a Master degree of Economics in 1988. He was appointed by the State Education Commission of the People's Republic of China as a visiting scholar of Macquarie University in Australia in 1993. Dr. Mu obtained the Endeavour Awards from the Australian Government to study the doctor's degree of Economics in 1995, and obtained his Doctor of Philosophy degree from The University of New England in 2001. Dr. Mu had been acted as the assistant to the general manager of the business development department of China Merchants Group Limited, the controlling shareholder of China Merchants Holdings (International) Company Limited (stock code: 144), a company listed on the Stock Exchange. Dr. Mu is now the general manager of 招商金葵資本管理有限責任公司 (China Merchants Jinkui Captial Management Company Limited) and has been acted as the assistant to the general manager of China Merchants Capital Limited and the general manager of the Fundraising and IR Department of China Merchants Capital Management (International) Limited. Dr. Mu has extensive experience in corporate finance and management, merger and acquisition and corporate restructuring. He has led and participated in numbers of large-scale merger and acquisition projects over the past ten years, which included the projects of China Merchants Group Limited in Vietnam and Sri Lanka, the project of highway merger integration and the project of Qianhai Bonded Port Area in Shenzhen. 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 54, 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. Mr. Law is currently the chief financial officer and an authorised representative of the Company. He is also currently the chief financial officer of YC Canada and Novus and a director of certain subsidiaries of the Company.

REPORT OF THE DIRECTORS

The Directors have pleasure in presenting their annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2017.

The head office and principal place of business is situated at Suite 1512, 15th Floor, One Pacific Place, 88 Queensway, Hong Kong.

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 5 and the Management Discussion and Analysis section on pages 6 to 15 of the annual report. This discussion forms part of the directors' report.

SEGMENT INFORMATION

An analysis of the Group's turnover and contribution to results by principal activities and geographical area of operations for the year ended 31 December 2017 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 2017 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 49 to 137. The state of affairs of the Company on 31 December 2017 is set out in note 38 to the consolidated financial statements.

The Directors do not recommend the payment of any dividend for the year (2016: Nil).

SUMMARY OF FINANCIAL INFORMATION

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

Results

	Year ended 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Revenue	**16,724,658**	20,568,871	23,320,527	22,346,997	19,354,899
(Loss)/profit before taxation	**(49,651)**	(331,317)	(4,642,731)	(4,621,681)	78,108
Taxation	**(8,974)**	61,025	116,622	(36,744)	(25,274)
(Loss)/profit for the year	**(58,625)**	(270,292)	(4,526,109)	(4,658,425)	52,834
(Loss)/profit attributable to					
– Owners of the Company	**(65,289)**	(267,722)	(4,544,205)	(4,634,817)	30,920
– Non-controlling interests	**6,664**	(2,570)	18,096	(23,608)	21,914
	(58,625)	(270,292)	(4,526,109)	(4,658,425)	52,834

SUMMARY OF FINANCIAL INFORMATION (Continued)

Assets and liabilities

	At 31 December				
	2017	2016	2015	2014	2013
	HK$'000	HK$'000	HK$'000	HK$'000	HK$'000
Non-current assets	**2,120,180**	1,891,790	2,071,260	7,272,376	9,346,385
Current assets	**743,728**	750,430	1,273,914	1,018,410	1,007,356
Total assets	**2,863,908**	2,642,220	3,345,174	8,290,786	10,353,741
Current liabilities	**(1,118,340)**	(635,048)	(1,135,860)	(1,402,175)	(481,831)
Non-current liabilities	**(150,922)**	(482,862)	(461,407)	(302,701)	(85,560)
Total liabilities	**(1,269,262)**	(1,117,910)	(1,597,267)	(1,704,876)	(567,391)
Total equity	**1,594,646**	1,524,310	1,747,907	6,585,910	9,786,350

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 26 to the consolidated financial statements.

RESERVES

Details of movements in the reserves of the Group during the year are set out in the consolidated statement of changes in equity on page 52 and 53.

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.

PURCHASE, REDEMPTION OR SALE OF LISTED SECURITIES OF THE COMPANY

During the year ended 31 December 2017, neither the Company nor any of its subsidiaries purchased, sold or redeemed any of the Company's listed securities during the year and up to the date of this report.

DISTRIBUTABLE RESERVES

At 31 December 2017, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, is HK$1,186,001,000 (2016: HK$856,210,000) which is the sum of the Company's share premium, contributed surplus and accumulated losses as stated in note 38 to the consolidated financial statements which may only be distributed in certain circumstances.

MAJOR CUSTOMERS AND SUPPLIERS

For 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 84.5% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 47.3%.

(2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented 82.9% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 38.5%.

As far as the Directors are aware, neither the Directors, their associates nor the 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 36 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 32 to the consolidated financial statements.

At 31 December 2017, 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)*
Mr. Bruno Guy Charles Deruyck *(Chief Executive Officer)*
Ms. Sha Chunzhi
Mr. Gao Hairen *(appointed on 12 January 2018)*
Mr. Li Jun
Mr. Tan Meng Seng
Mr. Shen Hao *(resigned on 12 January 2018)*

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. Gao Hairen is subject to re-election at the forthcoming annual general meeting ("2018 AGM") of the Company.

Pursuant to Bye-law 87 of the Company's Bye-laws, Mr. Li Jun, Mr. Leung Ting Yuk and Dr. Mu Guodong will retire by rotation and, being eligible, offer themselves for re-election at the 2018 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 of 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 19 to 23 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 2018 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in note 36 to the consolidated financial statements, no transaction, arrangement and contract of significance to which the Company, or any of its holding company, subsidiaries or fellow 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 2017, 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 Issuers (the "Model Code") were as follows:

DIRECTORS' INTERESTS IN SHARE CAPITAL (Continued)

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

Name of Director	Nature of interest	Long position/ Short position	Number of ordinary shares of the Company held	Approximate percentage of the total issued ordinary share capital of the Company
Mr. Bruno Guy Charles Deruyck ("Mr. Deruyck")	Personal interest *(note 1)*	Long position	75,000,000	0.618%
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 and 63,000,000 share options were granted to Mr. Deruyck on 18 October 2016 and 1 June 2017 respectively. Mr. Deruyck is deemed to be interested in these 75,000,000 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 2017, 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 holding company, subsidiaries or fellow subsidiaries a party to any arrangement to enable the Company's Directors, their respective spouse or children under 18 years of age to acquire benefits by means of the acquisition of shares in or debentures of the Company or any other body corporate.

SHARE OPTION SCHEME

The Company operates a share option scheme (the "Scheme"), further details of which are set out in note 26 to the consolidated financial statements.

63,000,000 share options were granted to a Director under the Scheme during the year ended 31 December 2017 details as follows:

Grantee	Date of grant	Exercise period	Exercise price	At 1 January 2017	Granted during the year	Exercised during the year	At 31 December 2017
Executive Director							
Mr. Bruno Guy Charles Deruyck	18/10/2016	1/10/2017-30/9/2026	HK$0.221	12,000,000	–	–	12,000,000
	1/6/2017	1/10/2017-30/9/2026	HK$0.1842	–	13,000,000	–	13,000,000
	1/6/2017	1/10/2018-30/9/2026	HK$0.1842	–	25,000,000	–	25,000,000
	1/6/2017	1/10/2019-30/9/2026	HK$0.1842	–	25,000,000	–	25,000,000
				12,000,000	63,000,000	–	75,000,000

EQUITY-LINKED AGREEMENTS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US$46,300,000 (equivalent to HK$358,825,000) which carries coupon interest with 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 29 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 has 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 2017.

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2017, 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 owned	Long position	6,496,729,547	53.49%
Central Huijin Investment Ltd. ("Central Huijin") *(note 2)*	Interest of controlled corporation	Long position	996,736,111	8.21%
China Construction Bank Corporation ("CCBC") *(note 2)*	Interest of controlled corporation	Long position	996,736,111	8.21%
Giant Wave Investments Limited ("Giant Wave") *(note 2)*	Directly owned	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 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, 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 (increased from the original 897,062,500 shares based on the initial conversion price of HK$0.40 per conversion share).

Central Huijin directly holds 57.31% shareholding interests in CCBC, whereas CCBC beneficially holds 100% shareholding interests in Giant Wave through a series of its wholly owned subsidiaries. Accordingly, both Central Huijin and CCBC 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 2017.

CONTINUING CONNECTED TRANSACTIONS

Yanchang Petroleum Group and Henan Yanchang (an indirect non-wholly owned subsidiary of the Company) renewed and entered into a new supply agreement dated 30 December 2016 (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 2019. Further details of the transactions are included in note 36 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 2017 as indicated above did not exceed the 2017 annual cap amount of RMB5,000,000,000 (equivalent to approximately HK$5,925,500,000); 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.

KPMG, 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. KPMG have issued their letter containing their findings and conclusions in respect of the continuing connected transactions disclosed above by the Group in accordance with Rule 14A.38 of the Listing Rules. A copy of the auditors' letter has been provided by the Company to the Stock Exchange.

EVENTS AFTER THE REPORTING PERIOD

There were no significant events 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.

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 2017.

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 34 to 43.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2017 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 21 May 2018 to 25 May 2018 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the 2018 AGM of the Company to be held on 25 May 2018, 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 4:30 p.m. on 18 May 2018.

AUDITORS

KPMG were first appointed as auditors of the Company in 2017 upon the resignation of HLB Hodgson Impey Cheng Limited.

A resolution will be proposed at the 2018 AGM to re-appoint KPMG as auditors of the Company for the ensuing year.

On behalf of the Board

Mr. Li Yi
Chairman

Hong Kong, 28 March 2018

CORPORATE GOVERNANCE REPORT

CORPORATE GOVERNANCE PRACTICE

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

In the opinion of the Board, the Company had complied with the code provisions set out in the Corporate Governance Code (the "CG Code") in Appendix 14 of the Listing Rules during the year ended 31 December 2017, except for the following deviations:

> 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 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 annual general meeting of the Company is less than one year and is considered to be short.

DIRECTORS' SECURITIES TRANSACTIONS

The Company has adopted the Model Code as set out in Appendix 10 to the Listing Rules. 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 2017.

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), Ms. Sha Chunzhi, Mr. Gao Hairen, 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.

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 thereof; (ii) reviewing and monitoring the training and continuous professional development of Directors and senior management; (iii) reviewing and monitoring the Company's policies and practices on compliance with legal and regulatory requirements; and (iv) reviewing the Company's compliance with the code and disclosure in the corporate governance report.

Appointment and Re-election of Directors

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

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

BOARD OF DIRECTORS (Continued)

Board Diversity Policy

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

Board Meetings

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

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

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

Directors' Continuous Professional Development

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Companies Ordinance/Act and corporate governance practices organised 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 presented by the Hong Kong Institute of Directors on the topic of "How to create value through Spin-off and Mergers and Acquisitions". A record of the training received by the respective Directors are kept and updated by the company secretary of the Company.

CHAIRMAN AND CHIEF EXECUTIVE OFFICER

The positions of the chairman and the chief executive officer have been held by separate individuals with a view to maintain an effective segregation of duties between the management of the Board and the day-to-day management of the Group's business and operations.

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

NON-EXECUTIVE DIRECTORS

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 2017.

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.

BOARD COMMITTEES (Continued)

Audit Committee (Continued)

During the year ended 31 December, 2017, the audit committee held five meetings. At the meetings, the committee reviewed (i) the planned audit scope and timing of the 2016 annual audit; (ii) profit warning announcement in relation to the financial year ended 31 December 2016; (iii) the annual results for the year ended 31 December 2016 and the interim results for the period ended 30 June 2017 respectively with the external auditors; and reviewed and discussed the Group's financial reporting, risk management and internal control systems and (iv) reviewed and discussed the proposed change of auditors during the year of 2017.

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 2017, the remuneration committee held 2 meetings. At the meetings, the committee reviewed and approved (i) the existing remuneration package of all Directors and the salary revision proposal from management for the chief executive officer and senior management; and (ii) proposed grant of share options to the 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, 2017, the nomination committee held one meeting. At the meeting, the committee reviewed and assessed the independence of all the independent non-executive Directors, the composition and structure of the Board and the retirement and re-election of Directors at the 2017 annual general meeting of the Company.

BOARD COMMITTEES (Continued)

Details of the Directors' attendance (either in person or by phone) at the Board meetings, audit committee meetings, remuneration committee meetings and nomination committee meetings held during the year ended 31 December 2017 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	7/7	–	2/2	1/1
Mr. Bruno Guy Charles Deruyck	6/7	–	–	–
Ms. Sha Chunzhi	3/7	–	–	–
Mr. Gao Hairen *(appointed on 12 January 2018)*	–	–	–	–
Mr. Li Jun	4/7	–	–	–
Mr. Tan Meng Seng	6/7	–	–	–
Mr. Shen Hao *(Resigned on 12 January 2018)*	1/7	–	–	–
Independent Non-executive Directors:				
Mr. Ng Wing Ka	7/7	5/5	2/2	–
Mr. Leung Ting Yuk	7/7	5/5	–	1/1
Mr. Sun Liming	7/7	5/5	2/2	1/1
Dr. Mu Guodong	7/7	–	–	–

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK$3,660,000, of which HK$3,158,000 was incurred for audit service and HK$502,000 for non-audit services, including internal control review services.

COMPANY SECRETARY

Mr. Law Hing Lam was appointed as the company secretary of the Company with effect from 21 March 2011. He is responsible to support the Board by ensuring good information flow within the Board and that Board meeting 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 authorised representative of the Company. The biographical details of Mr. Law is set out in the section "Directors' and Senior Management's Biographies" on page 23 of the annual report.

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2017 have been reviewed by the audit committee and audited by the external auditors, KPMG. 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 auditor's report on pages 44 to 48.

SHAREHOLDERS' RIGHTS

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

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

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

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

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

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

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

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

SHAREHOLDERS' RIGHTS (Continued)

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

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

CONSTITUTIONAL DOCUMENTS

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

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 to 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.

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

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.

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.

RISK MANAGEMENT AND INTERNAL CONTROL (Continued)

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.

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.yanchanginternational.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 AUDITOR'S REPORT 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 ("the Company") and its subsidiaries ("the Group") set out on pages 49 to 137, which comprise the consolidated statement of financial position as at 31 December 2017, 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 2017 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 *Auditor's 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") together with any ethical requirements that are relevant to our audit of the consolidated financial statements in Bermuda, and we have fulfilled our other ethical responsibilities in accordance with these requirements and the Code. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

MATERIAL UNCERTAINTY RELATED TO GOING CONCERN

Without qualifying our opinion, we draw attention to note 3(b) to the consolidated financial statements which describes that the Group is committed to repay convertible bonds, bank borrowings and interest totalling HK$706,796,000 within one year and that the Group's ability to meet these liquidity requirements depends on its ability to generate sufficient net cash inflows from future operations and/or other sources. These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern.

The consolidated financial statements have been prepared on a going concern basis, the validity of which is dependent on the Group's ability to generate sufficient net cash inflows from future operations and/or other sources to meet its liquidity commitments. Further details are set out in note 3(b). The consolidated financial statements do not include any adjustments that would result should the Group be unable to continue to operate as a going concern.

KEY AUDIT MATTERS

Key audit matters are those matters that, in our professional judgement, 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. In addition to the matter described in the material uncertainty related to going concern section, we have determined the matter described below to be the key audit matters to be communicated in our report.

Assessing impairment of petroleum and natural gas properties

Refer to note 17 to the consolidated financial statements and the accounting policy 3(j) on page 71.

The Key Audit Matter	How the matter was addressed in our audit
The Group recognised impairment of petroleum and natural gas properties of HK$177,810,000 for the year ended 31 December 2016. The impairment was primarily due to significant and prolonged reduction to the forecasted oil benchmark pricing for the year ended 31 December 2016. As at 31 December, 2017, management reviewed petroleum and natural gas properties, which comprise different cash-generating units ("CGUs"), for indicators of possible impairment or reversal of impairment by considering events or changes in circumstances. Such events and changes in circumstances included the economic impact on these CGUs resulting from fluctuation of oil and gas prices, production costs and change in production and oil and gas reserve volumes. For those CGUs where an indicator of impairment or reversal of impairment was identified, management compared the carrying amount of each CGU with its recoverable amount, which was estimated by calculating the value in use using a discounted cash flow forecast, to determine the amount of impairment, if any. The preparation of discounted cash flow forecasts involves the exercise of significant management judgement, particularly in estimating future selling prices for crude oil and natural gas, future production profiles and in determining appropriate discount rates.	Our procedures to assess impairment/reversal of impairment of petroleum and natural gas properties included the following: – assessing the design, implementation and operating effectiveness of key internal controls over the petroleum and natural gas reserves estimation process; – assessing management's identification of indicators of potential impairment or reversal of impairment of petroleum and natural gas properties, identification of CGUs, the allocation of assets to those CGUs and the methodology adopted by management in the impairment assessments with reference to the requirements of the prevailing accounting standards; – challenging the key inputs in the discounted cash flow forecasts, including future selling prices for crude oil and natural gas and future production profiles, with reference to the Group's business plans and external data and forecasts, together with oil and gas reserves reports issued by third party reserves specialists and considering whether there were any indicators of management bias in the selection of key inputs; – involving our internal valuation specialists to assist us in assessing whether the discount rates applied by the Group in the discounted cash flow forecasts were within the range adopted by other companies in the same industry;

KEY AUDIT MATTERS (Continued)

Assessing impairment of petroleum and natural gas properties (Continued)

The Key Audit Matter	How the matter was addressed in our audit
As a result of the impairment assessment exercise, impairment loss of petroleum and natural gas properties of HK$7,266,000 was reversed through profit or loss for the year ended 31 December 2017. We identified the assessment of impairment/reversal of impairment of petroleum and natural gas properties as a key audit matter because the impairment assessments are complex and involve the exercise of significant management judgement in estimating the inputs in the impairment assessment models, which can be inherently uncertain and could be subject to management bias in their selection.	– comparing the actual results for the current year with management's forecasts prepared in the prior year to assess the historical accuracy of management's forecasting process; making enquiries of management as to the reasons for any significant variations identified and considering whether these had been taken into account in the current year's forecasts; and – considering the disclosures in the consolidated financial statements in respect of the impairment assessment of petroleum and natural gas properties and the key assumptions adopted with reference to the requirements of the prevailing accounting standards.

INFORMATION OTHER THAN THE CONSOLIDATED FINANCIAL STATEMENTS AND AUDITOR'S REPORT THEREON

The directors are responsible for the other information. The other information comprises all the information included in the annual report, other than the consolidated financial statements and our auditor's report thereon.

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 THE DIRECTORS FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The directors 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 directors are assisted by the Audit Committee in discharging their responsibilities for overseeing the Group's financial reporting process.

AUDITOR'S 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 auditor's report that includes our opinion. This report is made solely to you, as a body, in accordance with Section 90 of the Bermuda Companies Act 1981, 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.

As part of an audit in accordance with HKSAs, we exercise professional judgement and maintain professional scepticism 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.

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

- 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 auditor's 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 auditor's 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 of the Company ("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.

We also provide the Audit Committee with a statement that we have complied with relevant ethical requirements regarding independence and 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 auditor's 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 partner on the audit resulting in this independent auditor's report is Lee Wai Shun, Wilson.

KPMG
Certified Public Accountants

8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

28 March 2018

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Revenue	8	**16,724,658**	20,568,871
Other revenue	8	**14,487**	12,825
		16,739,145	20,581,696
Expenses			
Purchases		**(16,354,663)**	(20,305,987)
Royalties		**(32,236)**	(19,216)
Field operation expenses		**(80,672)**	(67,169)
Exploration and evaluation expenses		**(4,127)**	(17,581)
Selling and distribution expenses		**(6,759)**	(4,241)
Administrative expenses		**(85,899)**	(85,612)
Depreciation, depletion and amortisation		**(170,626)**	(122,996)
Other gains and losses	9	**(438)**	(233,138)
		(16,735,420)	(20,855,940)
Profit/(loss) from operating activities	10	**3,725**	(274,244)
Finance costs	13	**(53,376)**	(57,073)
Loss before taxation		**(49,651)**	(331,317)
Taxation	14	**(8,974)**	61,025
Loss for the year		**(58,625)**	(270,292)
Other comprehensive income			
Items that may be reclassified subsequently to profit or loss:			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		**125,586**	26,166
– Reclassification adjustment relating to foreign subsidiary deregistered during the year		**–**	3,108
Other comprehensive income for the year, net of tax		**125,586**	29,274
Total comprehensive income for the year		**66,961**	(241,018)
(Loss)/profit for the year attributable to:			
Owners of the Company		**(65,289)**	(267,722)
Non-controlling interests		**6,664**	(2,570)
		(58,625)	(270,292)
Total comprehensive income for the year attributable to:			
Owners of the Company		**54,682**	(232,245)
Non-controlling interests		**12,279**	(8,773)
		66,961	(241,018)
Loss per share attributable to the owners of the Company	16		
Basic and diluted, HK cents		**(0.54)**	(2.20)

The notes on page 56 to 137 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
ASSETS			
Non-current assets			
Property, plant and equipment	*17*	**1,916,629**	1,690,356
Prepaid lease payments	*18*	**16,911**	16,124
Investment properties	*19*	**21,760**	28,970
Exploration and evaluation assets	*20*	**31,108**	27,566
Goodwill and intangible asset		**58,149**	58,149
Deferred tax assets	*31*	**75,623**	70,625
		2,120,180	1,891,790
Current assets			
Inventories	*21*	**54,214**	8,441
Trade receivables	*22*	**127,657**	24,122
Prepayments, deposits and other receivables	*23*	**353,859**	107,584
Cash and bank balances	*25*	**207,998**	610,283
		743,728	750,430
Total assets		**2,863,908**	2,642,220
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	*26*	**242,911**	242,911
Reserves		**1,235,072**	1,177,015
Total equity attributable to the owners of the Company		**1,477,983**	1,419,926
Non-controlling interests		**116,663**	104,384
Total equity		**1,594,646**	1,524,310

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
LIABILITIES			
Current liabilities			
Trade and other payables	*27*	**445,583**	364,175
Convertible bonds	*29*	**376,553**	–
Derivative financial instruments	*24*	**–**	967
Tax payables		**677**	851
Bank borrowings	*28*	**295,527**	269,055
		1,118,340	635,048
Non-current liabilities			
Convertible bonds	*29*	**–**	366,303
Decommissioning liabilities	*30*	**139,575**	102,371
Deferred tax liabilities	*31*	**11,347**	14,188
		150,922	482,862
Total liabilities		**1,269,262**	1,117,910
Total equity and liabilities		**2,863,908**	2,642,220
Net current (liabilities)/assets		**(374,612)**	115,382
Total assets less current liabilities		**1,745,568**	2,007,172

Approved and authorised for issue by the board of directors on 28 March 2018.

Mr. Li Yi
Chairman

Mr. Bruno Guy Charles Deruyck
Chief Executive Officer

The notes on page 56 to 137 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2017

	Attributable to the owners of the Company													
		Reserves												
	Share capital HK$'000	Share premium HK$'000 *(note i)*	Contributed surplus HK$'000 *(note ii)*	Exchange reserve HK$'000	Revaluation reserve HK$'000 *(note iii)*	Reserve on acquisition of additional interests in a subsidiary HK$'000 *(note iv)*	Share options reserve HK$'000 *(note v)*	Statutory reserve HK$'000 *(note vi)*	Convertible bonds reserve HK$'000 *(note vii)*	Other reserve HK$'000	Accumulated losses HK$'000	Sub-total HK$'000	Non-controlling interests HK$'000	Total HK$'000
At 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 for the year														
Items that may be reclassified subsequently to profit or loss:														
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong														
– 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 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 and 1 January 2017	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
(Loss)/profit for the year	–	–	–	–	–	–	–	–	–	–	(65,289)	(65,289)	6,664	(58,625)
Other comprehensive income for the year														
Items that may be reclassified subsequently to profit or loss:														
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong														
– Exchange differences arising during the year	–	–	–	119,971	–	–	–	–	–	–	–	119,971	5,615	125,586
Total comprehensive income for the year	–	–	–	119,971	–	–	–	–	–	–	(65,289)	54,682	12,279	66,961
Release of reserve upon deregistration of a subsidiary	–	–	(3,277)	–	–	–	–	–	–	–	3,277	–	–	–
Recognition of share based payment expenses	–	–	–	–	–	–	3,375	–	–	–	–	3,375	–	3,375
Transfer of reserves	–	–	–	–	(385,259)	(2,286,365)	–	–	–	1,940	2,669,684	–	–	–
At 31 December 2017	**242,911**	**1,763,060**	**6,400,652**	**(265,894)**	**–**	**–**	**3,702**	**21,899**	**16,373**	**5,276**	**(6,709,996)**	**1,235,072**	**116,663**	**1,594,646**

Notes:

(i) The share premium represents the difference between the fair value and the contracted value of the consideration shares paid for acquisition of subsidiaries or additional interests on available-for-sale investment in prior years.

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

Pursuant to shareholders' resolution passed at the AGM of the Company held on 27 May 2015, HK$6,400,773,000 was transferred from the share premium account and credited to the contribution surplus account of the Company during the year ended 31 December 2015.

(iii) The revaluation reserve represents mainly the fair value adjustment amounting to HK$385,000,000 relating to 7% equity interest of Madagascar Energy International Limited ("MEIL") previously acquired in June 2006. The Group subsequently acquired the remaining 93% equity interest of MEIL during the year ended 31 March 2008.

(iv) The reserve on acquisition of additional interest in a subsidiary represents the fair value adjustment amounting to HK$2,285,265,000 in relation to 46% equity interest of Madagascar Petroleum International Limited ("MPIL") previously acquired in August 2008. The Group subsequently acquired 54% equity interest of MPIL during the year ended 31 March 2009.

(v) The share options 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(o).

(vi) As stipulated by the relevant PRC laws and regulations, the subsidiaries of the Company established in the PRC shall set aside 10% of their 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) 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 bondholder or redeemed by the Company at the maturity date, the convertible bonds reserve will be reclassified to accumulated losses.

The notes on pages 56 to 137 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Loss before taxation		**(49,651)**	(331,317)
Adjustments for:			
Interest income	8	**(2,649)**	(4,476)
Depreciation and depletion of property, plant and equipment	17	**170,148**	122,545
Amortisation of prepaid lease payments	18	**478**	451
Change in fair value on derivative components of convertible bonds	29	**(967)**	12,992
Fair value change on investment properties	19	**8,767**	(627)
Gain on disposal of property, plant and equipment and exploration and evaluation assets	9	**(6,317)**	(7,362)
Disposals and written off of expired exploration and evaluation assets	9	**5,457**	6,338
(Reversal)/recognition of impairment loss of property, plant and equipment	17	**(7,266)**	177,810
Impairment loss of goodwill and intangible asset		**–**	38,779
Impairment loss of exploration and evaluation assets	20	**–**	2,143
Share-based payment expenses	10	**3,375**	327
Net increase in other reserve		**–**	721
Net exchange loss/(gain)		**3,804**	(16)
Fair value change on derivative financial instruments		**134**	(37)
Finance costs	13	**53,376**	57,073
Operating cash flows before movements in working capital		**178,689**	75,344
(Increase)/decrease in trade receivables		**(101,039)**	204,295
(Increase)/decrease in inventories		**(44,588)**	19,438
Increase in prepayments, deposits and other receivables		**(211,698)**	(6,034)
Increase/(decrease) in trade and other payables		**62,832**	(102,029)
Increase in decommissioning liabilities		**26,288**	7,999
Cash (used in)/generated from operations		**(89,516)**	199,013
Interest received		**2,649**	4,476
Tax paid		**(13,210)**	(4,706)
Net cash (used in)/generated from operating activities		**(100,077)**	198,783
Cash flows from investing activities			
Purchases of exploration and evaluation assets	20	**(7,307)**	(1,909)
Payment for purchases of property, plant and equipment		**(284,614)**	(82,483)
Proceeds from disposal of property, plant and equipment		**6,507**	61,560
Net cash used in investing activities		**(285,414)**	(22,832)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2017

	Notes	2017 HK$'000	2016 HK$'000
Cash flows from financing activities			
Proceeds from bank borrowings		**594,449**	555,920
Interest paid		**(40,664)**	(41,762)
Repayment of bank borrowings		**(589,094)**	(968,690)
Net cash used in financing activities		**(35,309)**	(454,532)
Net decrease in cash and cash equivalents		**(420,800)**	(278,581)
Cash and cash equivalents at the beginning of the year		**610,283**	886,690
Effect of exchange rate changes		**18,515**	2,174
Cash and cash equivalents at the end of the year	*25*	**207,998**	610,283

The notes on page 56 to 137 form an integral part of these financial statements.

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$") and all values are rounded to the nearest thousand (HK$'000), unless otherwise stated.

The directors of the Company (the "Directors") consider the immediate parent and ultimate holding company of the Company to be Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK"), a company incorporated in Hong Kong, and 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 respectively. These entities do not produce financial statements available for public use.

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

The Hong Kong Institute of Certified Public Accountants (the "HKICPA") has issued several amendments to Hong Kong Financial Reporting Standards (the "HKFRSs") that are first effective for the current accounting period of the Company and the Group. A summary of the amendments to HKFRSs are set out as below:

Amendments to HKAS 7, *Statement of cash flow: Disclosure initiative*
Amendments to HKAS 12, *Income taxes: Recognition of deferred tax assets for unrealised losses*

The application of the above amendments to HKFRSs had no material effect on the results and financial positions of the Group for the current or prior accounting periods which have been prepared and presented. However, additional disclosure has been included in note 25(b) to satisfy the new disclosure requirements introduced by the amendment to Hong Kong Accounting Standards (the "HKAS") 7, *Statement of cash flows: Disclosure initiative*, which require entities to provide disclosures that enable users of financial statements to evaluate changes in liabilities arising from financing activities, including both changes arising from cash flows and non-cash changes. The Group has not applied any new standards or interpretation that is not yet effective for the current accounting period.

New and amendments to HKFRSs in issue but not yet effective

Up to the date of issue of these financial statements, the HKICPA has issued a number of amendments, new standards and interpretations which are not yet effective for the year ended 31 December 2017 and which have not been applied in these financial statements. These include the following which may be relevant to the Group.

	Effective for accounting periods beginning on or after
HKFRS 9, Financial instruments	1 January 2018
HKFRS 15, Revenue from contracts with customers	1 January 2018
HKFRS 16, Lease	1 January 2019

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

HKFRS 9 will replace the current standard on accounting for financial instruments, HKAS 39, *Financial instruments: Recognition and measurement*. HKFRS 9 introduces new requirements for classification and measurement of financial assets, including the measurement of impairment for financial assets and hedge accounting. On the other hand, HKFRS 9 incorporates without substantive changes the requirements of HKAS 39 for recognition and derecognition of financial instruments and the classification and measurement of financial liabilities.

HKFRS 9 is effective for annual periods beginning on or after 1 January 2018 on a retrospective basis. The Group plans to use the exemption from restating comparative information and will recognise any transition adjustments against the opening balance of equity at 1 January 2018.

Expected impacts of the new requirements on the Group's financial statements are as follows:

(a) Classification and measurement

HKFRS 9 contains three principal classification categories for financial assets: measured at (1) amortised cost, (2) fair value through profit or loss ("FVTPL") and (3) fair value through other comprehensive income ("FVTOCI"):

- The classification for debt instruments is determined based on the entity's business model for managing the financial assets and the contractual cash flow characteristics of the asset. If a debt instrument is classified as FVTOCI then interest revenue, impairment and gains/losses on disposal will be recognised in profit or loss.

- For equity securities, the classification is FVTPL regardless of the entity's business model. The only exception is if the equity security is not held for trading and the entity irrevocably elects to designate that security as FVTOCI. If an equity security is designated as FVTOCI then only dividend income on that security will be recognised in profit or loss. Gains, losses and impairments on that security will be recognised in other comprehensive income without recycling.

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)

(a) Classification and measurement (Continued)

The Group has assessed that its financial assets currently measured at amortised cost will continue with their respective classification and measurements upon the adoption of HKFRS 9.

The classification and measurement requirements for financial liabilities under HKFRS 9 are largely unchanged from HKAS 39, except that HKFRS 9 requires the fair value change of a financial liability designated at FVTPL that is attributable to changes of that financial liability's credit risk to be recognised in other comprehensive income (without reclassification to profit or loss). The Group currently does not have any financial liabilities designated at FVTPL and therefore this new requirement will not have any impact on the Group on adoption of HKFRS 9.

(b) Impairment

The new impairment model in HKFRS 9 replaces the "incurred loss" model in HKAS 39 with an "expected credit loss" model. Under the expected credit loss model, it will no longer be necessary for a loss event to occur before an impairment loss is recognised. Instead, an entity is required to recognise and measure either a 12-month expected credit losses or lifetime expected credit losses, depending on the asset and the facts and circumstances. The Group expects that the accounting for impairment will not be significantly impacted upon the application of the expected credit loss model.

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 establishes a comprehensive framework for recognising revenue from contracts with customers. HKFRS 15 will replace the existing revenue standards, HKAS 18, *Revenue*, which covers revenue arising from sale of goods and rendering of services, and HKAS 11, *Construction contracts*, which specifies the accounting for revenue from construction contracts.

Based on the assessment completed to date, the Group has identified the following areas which are expected to be affected:

(a) Timing of revenue recognition

The Group's revenue recognition policies are disclosed in note 3(f). Currently, revenue arising from sale of goods is generally recognised when the risks and rewards of ownership have passed to the customers. Under HKFRS 15, revenue is recognised when the customer obtains control of the promised good or service in the contract. HKFRS 15 identifies 3 situations in which control of the promised good or service is regarded as being transferred over time:

(a) When the customer simultaneously receives and consumes the benefits provided by the entity's performance, as the entity performs;

(b) When the entity's performance creates or enhances an asset (for example work in progress) that the customer controls as the asset is created or enhanced;

(c) When the entity's performance does not create an asset with an alternative use to the entity and the entity has an enforceable right to payment for performance completed to date.

If the contract terms and the entity's activities do not fall into any of these 3 situations, then under HKFRS 15 the entity recognises revenue for the sale of that good or service at a single point in time, being when control has passed. Transfer of risks and rewards of ownership is only one of the indicators that will be considered in determining when the transfer of control occurs.

The Group has assessed that the new revenue standard is not likely to have significant impact on how it recognises revenue from sale of goods.

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 (Continued)

(b) Significant financing component

HKFRS 15 requires an entity to adjust the transaction price for the time value of money when a contract contains a significant financing component, regardless of whether the payments from customers are received significantly in advance or in arrears.

Currently, the Group would only apply such a policy when payments are significantly deferred, which is currently not common in the Group's arrangements with its customers. Currently, the Group does not apply such a policy when payments are received in advance.

HKFRS 16, Leases

As disclosed in note 3(l), currently the Group classifies leases into finance leases and operating leases and accounts for the lease arrangements differently, depending on the classification of the lease. The Group enters into some leases as the lessor and others as the lessee.

HKFRS 16 is not expected to impact significantly on the way that lessors account for their rights and obligations under a lease. However, once HKFRS 16 is adopted, lessees will no longer distinguish between finance leases and operating leases. Instead, subject to practical expedients, lessees will account for all leases in a similar way to current finance lease accounting, i.e. at the commencement date of the lease the lessee will recognise and measure a lease liability at the present value of the minimum future lease payments and will recognise a corresponding "right-of-use" asset. After initial recognition of this asset and liability, the lessee will recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the current policy of recognising rental expenses incurred under operating leases on a systematic basis over the lease term. As a practical expedient, the lessee can elect not to apply this accounting model to short-term leases (i.e. where the lease term is 12 months or less) and to leases of low-value assets, in which case the rental expenses would continue to be recognised on a systematic basis over the lease term.

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 (Continued)

HKFRS 16 will primarily affect the Group's accounting as a lessee of leases for properties, plant and equipment which are currently classified as operating leases. The application of the new accounting model is expected to lead to an increase in both assets and liabilities and to impact on the timing of the expense recognition in the statement of profit or loss over the period of the lease. As disclosed in note 33, at 31 December 2017 the Group's future minimum lease payments under non-cancellable operating leases amount to $11,848,000 for properties, the majority of which is payable either between 1 and 5 years after the reporting date. Some of these amounts may therefore need to be recognised as lease liabilities, with corresponding right-of-use assets, once HKFRS 16 is adopted. The Group will need to perform a more detailed analysis to determine the amounts of new assets and liabilities arising from operating lease commitments on adoption of HKFRS 16, after taking into account the applicability of the practical expedient and adjusting for any leases entered into or terminated between now and the adoption of HKFRS 16 and the effects of discounting.

HKFRS 16 is effective for annual periods beginning on or after 1 January 2019. The standard offers different transition options and practical expedients, including the practical expedient to grandfather the previous assessment of which existing arrangements are, or contain, leases. If this practical expedient is chosen, the Group will apply the new definition of a lease in HKFRS 16 only to contracts that are entered into on or after the date of initial application. If the practical expedient is not chosen, the Group will need to reassess all of its decisions about which existing contracts are, or contain, leases, using the new definition. Depending on whether the Group elects to adopt the standard retrospectively or follow a modified retrospective method of recognising a cumulative-effect adjustment to the opening balance of equity at the date of initial application, the Group may or may not need to restate comparative information for any changes in accounting resulting from the reassessment. The Group has not yet decided whether it will choose to take advantage of this practical expedient, and which transition approach to be taken.

3. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These financial statements have been prepared in accordance with all applicable HKFRSs, which collective term includes all applicable individual HKFRSs, HKASs and Interpretations issued by the HKICPA, accounting principles generally accepted in Hong Kong and the requirements of the Hong Kong Companies Ordinance. These financial statements also comply with the applicable disclosure provision of the Rules Governing the Listing of Securities (the "Listing Rules") on the Stock Exchange. Significant policies adopted are disclosed below.

The HKICPA has issued certain new and revised HKFRSs that are first effective or available for early adoption for the current accounting period of the Group. Note 2 provided information on any changes in accounting policies resulting from initial application of these developments to the extent that they are relevant to the Group for the current and prior accounting periods reflected in these financial statements.

(b) Basis of preparation of the consolidated financial statements

The consolidated financial statements for the year ended 31 December 2017 comprise the Company and its subsidiaries.

The measurement basis used in the preparation of the financial statements is the historical cost basis except that the following assets and liabilities are stated at their fair value as explained in the accounting policies set out below:

– Investment properties

– Derivative financial instruments

The preparation of financial statements in conformity with HKFRSs requires management to make judgements, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgements about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Basis of preparation of the consolidated financial statements (Continued)

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimate is revised if the revision effects only that period, or in the period of revision and future periods if the revision affects both current and future periods.

Judgements made by management in the application of HKFRSs that have significant effect on the financial statements and major sources of estimation uncertainty are discussed in note 4.

As at 31 December 2017, the Group had net current liabilities of HK$374,612,000 and incurred net loss of HK$58,625,000 during the year ended 31 December 2017. As disclosed in note 5(b), the Group is committed to incur non-operating cash outflows of HK$706,796,000 within one year, being (i) repayment of convertible bonds and payment of related interest totalling HK$397,140,000 in 2018; and (ii) repayment of bank borrowings throughout 2018 and payment of related interest totalling HK$309,656,000. The Group will be unable to repay these borrowings in full when they fall due unless it is able to generate sufficient net cash inflows from its operations and/or other sources, since as at 31 December 2017, the Group only had cash and cash equivalents of HK$207,998,000.

These facts and circumstances indicate the existence of material uncertainties which may cast significant doubt on the Group's ability to continue as a going concern and, therefore, the Group may be unable to realise its assets and discharge its liabilities in the normal course of business.

The Directors are of the opinion that the Group will be able to meet its financial obligations as and when they fall due for the next twelve months from the end of the reporting period assuming the success of the following measures:

(i) the Group expects to generate operating cash inflows for the next twelve months;

(ii) the Directors consider that the Group could obtain financing from various sources of funding; and

(iii) the Directors consider that the Group could dispose of certain assets to obtain funding.

Accordingly, the consolidated financial statements are prepared on going concern basis. Should the Group be unable to continue to operate as a going concern, adjustments would have to be made to write down the value of assets to their recoverable amounts, to provide for further liabilities which might arise and to reclassify non-current assets and non-current liabilities as current assets and current liabilities respectively. The effect of these adjustments has not been reflected in these financial statements.

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.

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

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(c) Basis of consolidation (Continued)

Changes in the Group's ownership interests in existing subsidiaries

Changes in the Group's ownership interests in existing subsidiaries that do not result in the Group losing control over the subsidiaries are accounted for as equity transactions. The carrying amounts of the Group's 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.

In the Company's statements of financial position, investments in subsidiaries are stated at cost less impairment losses, unless the investment is classified as held for sale (or included in a disposal group that is classified as held for sale).

(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.

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.

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 units ("CGUs") (or groups of cash-generating units) 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 group 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.

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.

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. 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. Calculation of depletion is based on total capitalised costs plus estimated future development costs of proved plus probable reserves. 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 including related decommissioning liability and is recognised in profit or loss.

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 costs capitalised by the Group in connection with the exploration for and evaluation of mineral resources before the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. Costs incurred before the Group has obtained the legal rights to explore an area are expensed. Exploration and evaluation assets are initially capitalised as intangible assets and are not amortised. Exploration and evaluation assets are assessed for impairment when facts and circumstances indicate that the carrying amount may exceed the recoverable amount. An impairment loss is recognised in profit or loss and separately disclosed. Once the technical feasibility and commercial viability of the extraction of resources in an area of interest are demonstrable based on technical data available to support the possible recovery of reserves, exploration and evaluation assets attributable to that area are assessed for impairment with any impairment loss recognised in profit or loss. The remaining carrying value of the relevant exploration and evaluation assets is then reclassified as petroleum and natural gas properties within property, plant and equipment. For divestitures of exploration and evaluation assets, a gain or loss is recognised in profit or loss for the difference between the net disposal proceeds and the carrying amount of the asset. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognised in profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(j) Impairment on tangible assets

At the end of the reporting period, the Group reviews the carrying amounts of its tangible assets 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 CGUs, or otherwise they are allocated to the smallest Group of CGUs for which a reasonable and consistent allocation basis can be identified.

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.

(k) Inventories

Inventories are stated at the lower of cost and net realisable value. Cost is calculated using the weighted average costing method. Net realisable value represents the estimated selling price for inventories less all estimated costs necessary to make the sale.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(l) Leasing

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

The Group as lessor

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

The Group as lessee

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, to the extent the allocation of the lease payments can be made reliably. For this purpose, the minimum lease payments (including any lump-sum upfront payments) are allocated between the land and the building elements in proportion to the relative fair values of the leasehold interests in the land element and building element of the lease at the inception of the lease.

When the lease payments cannot be allocated reliably between the land and building elements, the entire lease is generally classified as a finance lease unless it is clear that both elements are operating leases in which case the entire lease is classified as an operating lease. Lump-sum upfront payments relating to interests in leasehold land that is accounted for as an operating lease is presented as "prepaid lease payments" in the consolidated statements of financial position at cost initially and is amortised over the lease term on a straight-line basis.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Foreign currencies translation

In preparing the financial statements of each individual Group entity, transactions in currencies other than the functional currency of that entity ("foreign currencies") are 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(n) Retirement benefits schemes

(i) Salaries, annual bonuses, paid annual leave, contributions to defined contribution retirements plans and the cost of non-monetary benefits are accrued in the year 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) The Group contributes to various employee retirement benefit plans organised by PRC municipal and provincial government under which it is required to make monthly contributions to these plans at described rates for its employees in the PRC. The relevant PRC municipal and provincial governments undertake to assume the retirement benefit obligations of existing and future retied employees of the Group in the PRC. The Group has similar retirement benefit plans for its employees in its overseas operations. Contributions to these PRC and overseas plans are charged to expenses as incurred. The Group currently has no additional material obligations outstanding for the payment of retirement and other post retirement benefits of employees in the PRC or overseas other than the monthly contributions described above.

(o) 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 capital and 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit differs from 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 liabilities and assets 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(p) 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.

(q) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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).

Interest income is recognised by applying the effective interest rate, except for short-term receivables when the effect of discounting is immaterial.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) 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.

For certain categories of financial assets, such as trade receivables, these are assessed for impairment on a collective basis even if they were assessed not to be impaired individually.

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, as well as 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial instruments (Continued)

Financial liabilities and equity instruments

Classification as debt or equity

Debt 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 assets 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial instruments (Continued)

Convertible bonds

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

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

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

If the note is converted, the convertible bonds reserve, together with the carrying amount of the liability component at the time of conversion, is transferred to share capital and share premium as consideration for the shares issued. If the note is redeemed, the convertible bonds reserve is released directly to retained earnings/accumulated losses.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(q) Financial instruments (Continued)

Derivative financial instruments

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

Derecognition

The Group derecognises a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Group neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Group 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(r) 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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(s) 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.

(t) Cash and cash equivalents

Cash and cash equivalents comprises cash at bank and on hand, demand deposits with banks and other financial institutions, and short-term, highly liquid investments that are readily convertible into known amounts of cash and which, are subject to an insignificant risk of changes in value, having been within three months of maturity at acquisition. Bank overdrafts that are repayable on demand and form an integral part of the Group's cash management are also included as a component of cash and cash equivalents for the purpose of the consolidated statement of cash flows.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(u) 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.

(v) 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 the Group's parent.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(v) 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.

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.

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(w) 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.

(x) 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 most senior executive management for the purposes of allocating resources to, and assessing the performance of, the Group's various lines of business and geographical locations.

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

4. KEY SOURCES OF ESTIMATION UNCERTAINTY

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) Going concern

As disclosed in note 3(b), the Directors have prepared the financial statement on a going concern basis as they are of the opinion that the Group has adequate source of liquidity to fund the Group's working capital and to meet its obligations as they become due. Any adverse result on the assumption would affect the Group's ability to continue as a going concern.

(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. Management uses all readily available information in determining an amount that is a reasonable approximately of recoverable amount, including estimates basis on reasonable and supportable assumptions and projections of future oil prices and production profile.

As at 31 December 2017 and 31 December 2016, the recoverable amount of exploration and evaluation assets have been determined based on recent land sales.

(c) Fair value of investment properties

The fair value of investment properties is determined using market, comparison approach by reference to recent sales price of comparable properties on a price per square foot basis using market data which is publicly available. 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.

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.

4. KEY SOURCES OF ESTIMATION UNCERTAINTY (Continued)

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

The amounts recorded for depletion 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.

(e) Decommissioning liabilities

The Group estimates future remediation costs of production facilities, well sites and gathering systems at different stages of development and construction of assets. In most instances, removal of assets occurs many years into the future. This requires an estimate regarding abandonment date, future environmental and regulatory legislation, the extent of reclamation activities, the engineering methodology for estimating cost, future technologies in determining the removal cost and liability-specific discount rates to determine the present value of these cash flows.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2017 HK$'000	2016 HK$'000
Financial assets		
Loans and receivables (including cash and bank balances)		
— Trade receivables *(note 22)*	127,657	24,122
— Other receivables *(note 23)*	30,114	5,496
— Cash and bank balances *(note 25)*	207,998	610,283
	365,769	639,901
Financial liabilities		
At amortised costs		
— Trade and other payables	188,455	147,563
— Bank borrowings *(note 28)*	295,527	269,055
— Convertible bonds *(note 29)*	376,553	366,303
	860,535	782,921
At fair value through profit or loss		
— Derivative financial instruments *(note 24)*	–	967
	860,535	783,888

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives

The Group's financial instruments include trade and other receivables, cash and bank balances, trade and other payables, bank borrowings, convertible bonds, 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 it primarily to the financial risks of changes in foreign currency exchange rates, 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 these risks are managed and measured.

(i) Foreign currency risk management

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

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

Market risk (Continued)

(ii) Interest rate risk management

The Group is exposed to cash flow interest rate risk because entities in the Group borrow funds from banks at floating interest rates. The effective interest rate for the bank borrowings was approximately 5.2% as at 31 December 2017 (2016: 5.9%). 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 has 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 amount of financial instruments outstanding at the end of the reporting period was outstanding for the whole year. A 100 basis points (2016: 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 (2016: 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$2,955,000 (2016: pre-tax loss would increase/decrease by HK$2,691,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

(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 other currencies, but also by world economic events that dictate the levels of supply and demand.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (Continued)

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. Note 3(b) explains management's plan for managing liquidity needs of the Group to enable it to continue to meet its obligations as they fall due.

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.

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (Continued)

(b) Financial risk management objectives (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 2017						
Non-derivative financial liabilities						
Trade and other payables	**–**	**188,455**	**–**	**–**	**188,455**	**188,455**
Bank borrowings	**4.78**	**309,656**	**–**	**–**	**309,656**	**295,527**
Convertible bonds	**7.00**	**397,140**	**–**	**–**	**397,140**	**376,553**
		895,251	**–**	**–**	**895,251**	**860,535**
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
		431,412	441,355	–	872,767	782,921

Note:

Further details regarding maturity terms of the convertible bonds and the bank borrowings and material uncertainties in respect of the Group's ability to continue as a going concern are set out in note 3(b).

(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).

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS (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 2017 HK$'000	Fair value as at 31 December 2016 HK$'000	Fair value hierarchy	Valuation technique and key inputs	Significant unobservable inputs
— Derivative components of convertible bonds *(note 29)*	–	967	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: 2017: N/A (2016: 10.36%). Share price volatility: 2017: N/A (2016: 46.30%) *(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.

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

Reconciliation of Level 3 fair value measurements

	HK$'000
At 1 January 2016	4,348
Fair value change	12,992
Recognition of convertible bonds reserve	(16,373)
At 31 December 2016 and 1 January 2017	967
Fair value change	(967)
At 31 December 2017	–

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)

The Directors consider the carrying amounts of financial assets and financial liabilities recognised in the consolidated statement of financial position for both years approximate to their fair values.

6. CAPITAL 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. Further details regarding the Group's ability to continue as a going concern are disclosed in note 3(b).

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 2017 and 31 December 2016, the Group's strategy was to maintain a gearing ratio less than 1. The gearing ratio at 31 December 2017 and 31 December 2016 were as follows:

	2017 **HK$'000**	2016 HK$'000
Total liabilities	**1,269,262**	1,117,910
Total equity	**1,594,646**	1,524,310
Gearing ratio	**79.6%**	73.3%

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.

No operating segments have been aggregated to form the above reportable segments.

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	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Segment revenue:						
Sales to external customers	**316,011**	199,683	**16,408,647**	20,369,188	**16,724,658**	20,568,871
Segment profit/(loss)	**8,037**	(54,204)	**17,379**	20,851	**25,416**	(33,353)
Other revenue					**14,487**	12,825
Fair value change on investment properties					**(8,767)**	627
Change in fair value on derivative components of convertible bonds					**967**	(12,992)
Net foreign exchange (loss)/gain					**(630)**	16
Impairment loss of exploration and evaluation assets					**–**	(2,143)
Impairment loss of goodwill and intangible asset					**–**	(38,779)
Reversal/(recognition) of impairment loss of property, plant and equipment					**7,266**	(177,810)
Unallocated corporate expenses					**(35,014)**	(22,635)
Profit/(loss) from operating activities					**3,725**	(274,244)
Finance costs					**(53,376)**	(57,073)
Loss before taxation					**(49,651)**	(331,317)
Taxation					**(8,974)**	61,025
Loss for the year					**(58,625)**	(270,292)

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2016: Nil).

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

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	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Segment assets	**1,822,084**	1,655,166	**901,182**	760,442	**2,723,266**	2,415,608
Unallocated assets					**140,642**	226,612
Total assets					**2,863,908**	2,642,220
Segment liabilities	**432,010**	381,553	**426,429**	336,152	**858,439**	717,705
Unallocated liabilities					**410,823**	400,205
Total liabilities					**1,269,262**	1,117,910

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	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Other segment information:								
Depreciation of property, plant and equipment	**880**	1,358	**7,453**	7,541	**61**	74	**8,394**	8,973
Depletion of property, plant and equipment	**161,754**	113,572	**–**	–	**–**	–	**161,754**	113,572
Disposals and written off of expired exploration and evaluation assets	**5,457**	6,338	**–**	–	**–**	–	**5,457**	6,338
Amortisation of prepaid lease payments	**–**	–	**478**	451	**–**	–	**478**	451
Impairment loss of exploration and evaluation assets	**–**	2,143	**–**	–	**–**	–	**–**	2,143
Impairment loss of goodwill and intangible asset	**–**	–	**–**	38,779	**–**	–	**–**	38,779
(Reversal)/recognition of impairment loss of property, plant and equipment	**(7,266)**	177,810	**–**	–	**–**	–	**(7,266)**	177,810
Additions to non-current assets*	**270,224**	98,446	**8,786**	14,168	**12**	39	**279,022**	112,653

* The amount represents additions to property, plant and equipment as well as exploration and evaluation assets for the years ended 31 December 2017 and 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)*	
	2017 HK$'000	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
PRC	**16,408,647**	20,369,188	**344,474**	337,439
Canada	**316,011**	199,683	**1,699,987**	1,474,303
Hong Kong and others	**–**	–	**96**	9,423
	16,724,658	20,568,871	**2,044,557**	1,821,165

Note:

Non-current assets excluded deferred tax assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK$16,408,647,000 (2016: HK$20,369,188,000) are revenue of HK$12,648,423,000 (2016: HK$14,700,980,000) which arose from two (2016: four) customers of the Group which contributed 10% or more to the Group's total revenue for the year.

Revenue from major customers of the Group's total revenue, are set out below:

	2017 HK$'000	2016 HK$'000
Customer A	**7,907,507**	5,502,271
Customer B	**4,740,916**	4,593,415
Customer C *(note)*	**–**	2,475,389
Customer D *(note)*	**–**	2,129,905

Note:

The corresponding revenues from Customer C and D did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2017.

8. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold. All significant intra-group transactions have been eliminated on consolidation.

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

	2017 HK$'000	2016 HK$'000
Revenue		
Sales of crude oil and gas	**316,011**	199,683
Trading and distribution of oil related products	**16,408,647**	20,369,188
	16,724,658	20,568,871
Other revenue		
Bank interest income	**2,649**	4,476
Rental income *(note 19)*	**1,644**	1,566
Storage fee income	**10,194**	6,782
Others	**–**	1
	14,487	12,825

9. OTHER GAINS AND LOSSES

	2017 HK$'000	2016 HK$'000
Net foreign exchange (loss)/gain	**(630)**	16
Fair value change on investment properties *(note 19)*	**(8,767)**	627
Change in fair value on derivative components of convertible bonds *(note 29)*	**967**	(12,992)
Gain on disposal of property, plant and equipment and exploration and evaluation assets	**6,317**	7,362
Disposals and written off of expired exploration and evaluation assets	**(5,457)**	(6,338)
Impairment loss of exploration and evaluation assets *(note 20)*	**–**	(2,143)
Impairment loss of goodwill and intangible asset	**–**	(38,779)
Reversal/(recognition) of impairment loss of property, plant and equipment *(note 17)*	**7,266**	(177,810)
Fair value change on derivative financial instruments	**(134)**	(3,081)
	(438)	(233,138)

10. PROFIT/(LOSS) FROM OPERATING ACTIVITIES

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

	2017 HK$'000	2016 HK$'000
Auditors' remuneration		
— Audit services	**3,158**	1,900
— Non-audit services	**502**	12
Cost of inventories sold	**16,354,663**	20,305,987
Depreciation and depletion of property, plant and equipment *(note 17)*	**170,148**	122,545
Amortisation of prepaid lease payments *(note 18)*	**478**	451
Minimum lease payments under operating leases of rented premises	**8,525**	7,819
Staff costs (including Directors' remuneration)		
— Salaries and wages	**54,139**	54,569
— Share-based payment expenses	**3,375**	327
— Pension scheme contributions	**474**	444

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 2017

	Directors' fees HK$'000	Salaries, other benefits and bonuses HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000 *(note 26)*	Total HK$'000
Executive Directors					
Mr. Li Yi *(Chairman)*	–	254	–	–	254
Mr. Bruno Guy Charles Deruyck *(Chief executive officer)*	–	3,500	–	3,375	6,875
Ms. Sha Chunzhi	–	250	–	–	250
Mr. Li Jun	–	250	–	–	250
Mr. Tan Meng Seng	–	602	18	–	620
Mr. Shen Hao (resigned on 12 January 2018)	–	250	–	–	250
Sub-total	–	5,106	18	3,375	8,499
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	5,106	18	3,375	9,011

11. DIRECTORS' REMUNERATION (Continued)

For the year ended 31 December 2016

	Directors' fees HK$'000	Salaries, other benefits and bonuses HK$'000	Pension scheme contributions HK$'000	Equity-settled share option expenses HK$'000 *(note 26)*	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

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.

No Directors waived or agreed to waive any remuneration during the year (2016: 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 (2016: Nil).

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

(a) Senior management of the Group

Senior management of the Group represents the executive Directors of the Company during the years ended 31 December 2017 and 31 December 2016.

(b) Five highest paid individuals

The five highest paid employees of the Group during the year included one Director (2016: two Directors), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining four (2016: three) highest paid employees who are neither a Director nor chief executive of the Company are as follows:

	2017 HK$'000	2016 HK$'000
Basic salaries and bonuses	**7,389**	5,074
Pension scheme contributions	**18**	18
	7,407	5,092

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	
	2017	2016
HK$		
1,500,001–2,000,000	**3**	3
2,000,001–2,500,000	**1**	–
	4	3

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2016: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2016: Nil).

During the year ended 31 December 2017, no share options to subscribe for ordinary shares of the Company were granted to these individuals, under the Company's share option scheme (2016: Nil).

13. FINANCE COSTS

	2017 HK$'000	2016 HK$'000
Interest expenses on bank borrowings wholly repayable within five years	13,918	18,997
Interest expense on convertible bonds *(note 29)*	36,996	35,835
Accretion of decommissioning liabilities *(note 30)*	2,462	2,241
	53,376	57,073

14. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS

(a) Taxation in the consolidated statement of profit or loss represent:

	2017 HK$'000	2016 HK$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	–	–
Current tax – Outside Hong Kong		
Provision for the year	12,437	11,001
Deferred tax		
Origination and reversal of temporary differences	(3,463)	(72,026)
	8,974	(61,025)

The provision for Hong Kong Profits tax for 2017 is calculated at 16.5% (2016: 16.5%) of estimated assessable profits for the year. Taxation for subsidiaries outside Hong Kong is charged at the appropriate current rate of taxation ruling in the relevant countries. The Canada blended statutory tax rate and PRC corporate income tax rate applicable to the Group's subsidiaries in Canada and the PRC are 27% (2016: 27%) and 25% (2016: 25%) respectively.

14. INCOME TAX IN THE CONSOLIDATED STATEMENT OF PROFIT OR LOSS (Continued)

(b) Reconciliation between tax (expense)/income and accounting loss at applicable tax rates:

	2017 **HK$'000**	2016 HK$'000
Loss before taxation	**49,651**	331,317
Notional tax on loss before taxation, calculated at the rates applicable to profits/losses in the countries concerned	**5,787**	80,550
Tax effect of non-deductible expenses	**(14,770)**	(15,360)
Tax effect of non-taxable income	**531**	498
Tax effect of unused tax losses not recognised	**(292)**	(224)
Others	**(230)**	(4,439)
Actual tax (expense)/income	**(8,974)**	61,025

15. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2017, nor has any dividend been proposed since the end of the reporting period (2016: Nil).

16. LOSS PER SHARE

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

	2017 HK$'000	2016 HK$'000
Loss		
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	**(65,289)**	(267,722)

	2017 '000	2016 '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 2017 and 31 December 2016 were the same as the basic loss per share. The computation of diluted loss per share for the years ended 31 December 2017 and 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.

17. PROPERTY, PLANT AND EQUIPMENT

	Buildings HK$'000	Plant and machinery HK$'000	Furniture, fixtures and equipment HK$'000	Motor vehicles HK$'000	Leasehold improvements HK$'000	Petroleum and natural gas properties HK$'000	Construction in progress HK$'000	Total HK$'000
Cost								
At 1 January 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 20)*	–	–	–	–	–	5,886	–	5,886
Exchange differences	(6,957)	(626)	(82)	(165)	12	88,595	(7,216)	73,561
At 31 December 2016 and 1 January 2017	122,855	11,872	10,394	2,797	353	2,623,194	128,769	2,900,234
Additions	7,161	1,188	559	7	–	262,554	246	271,715
Disposals	–	–	–	–	–	(22,344)	–	(22,344)
Transfer from exploration and evaluation assets *(note 20)*	–	–	–	–	–	887	–	887
Adjustment	–	–	–	–	–	–	(16,227)	(16,227)
Exchange differences	9,596	950	774	222	31	230,329	10,189	252,091
At 31 December 2017	139,612	14,010	11,727	3,026	384	3,094,620	122,977	3,386,356
Accumulated depreciation, depletion and impairment								
At 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 *(note 9)*	–	–	–	–	–	177,810	–	177,810
Exchange differences	(965)	(142)	1	(84)	12	31,225	–	30,047
At 31 December 2016 and 1 January 2017	20,838	3,760	5,591	1,826	353	1,177,510	–	1,209,878
Charge for the year	4,251	1,754	1,886	503	–	161,754	–	170,148
Eliminated on disposals	–	–	–	–	–	(22,154)	–	(22,154)
Reversal of impairment loss during the year *(note 9)*	–	–	–	–	–	(7,266)	–	(7,266)
Exchange differences	1,692	317	420	150	31	116,511	–	119,121
At 31 December 2017	26,781	5,831	7,897	2,479	384	1,426,355	–	1,469,727
Net book value								
At 31 December 2017	**112,831**	**8,179**	**3,830**	**547**	**–**	**1,668,265**	**122,977**	**1,916,629**
At 31 December 2016	102,017	8,112	4,803	971	–	1,445,684	128,769	1,690,356

17. PROPERTY, PLANT AND EQUIPMENT (Continued)

Impairment of petroleum and natural gas properties

As discussed in note 4(d) 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% per annum (2016: escalated at 2.0% 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% (2016: 10%).

As at 31 December 2017, as a result of technical revisions of reserve estimates and rebound of global oil and natural gas prices, the Group carried out a review of the recoverable amount of the petroleum and natural gas properties which belonged to the exploration, exploitation and operation segment that based on an independent qualified reserve evaluator assessment as at 31 December 2017. During the year ended 31 December 2017, the Group reversed an impairment loss on petroleum and natural gas properties of HK$7,266,000. 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 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.

The recoverable amount of the Group's petroleum and natural gas properties was 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% (2016: 10%) as required under the Chapter 18 of the Listing Rules on the Stock Exchange.

18. PREPAID LEASE PAYMENTS

	2017 **HK$'000**	2016 HK$'000
Net book value		
At the beginning of the year	**16,572**	18,012
Amortisation for the year	**(478)**	(451)
Exchange differences	**1,300**	(989)
At the end of the year	**17,394**	16,572
The Group's prepaid lease payments comprise:		
Land outside Hong Kong under medium term lease	**17,394**	16,572
Analysed for reporting purposes as:		
Current assets (include in prepayments, deposits and other receivables) *(note 23)*	**483**	448
Non-current assets	**16,911**	16,124
	17,394	16,572

Amortisation on prepaid lease payments of HK$478,000 (2016: HK$451,000) has been charged to profit or loss and included in depreciation, depletion and amortisation for the year.

19. INVESTMENT PROPERTIES

	HK$'000
Fair values	
At 1 January 2016	29,458
Increase in fair values recognised in profit or loss *(note 9)*	627
Exchange differences	(1,115)
At 31 December 2016 and 1 January 2017	28,970
Decrease in fair values recognised in profit or loss *(note 9)*	(8,767)
Exchange differences	1,557
At 31 December 2017	**21,760**

19. INVESTMENT PROPERTIES (Continued)

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 2017 and 31 December 2016 have been arrived at on the basis of valuations carried out by Colliers International (Hong Kong) Limited ("Colliers") (2016: Ascent Partners Valuation Services Limited ("Ascent Partners") and Colliers), independent qualified professional valuer not related to the Group. Colliers and Ascent Partners have appropriate qualification and recent experience in the valuation of similar properties in the relevant locations.

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

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

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

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.

19. INVESTMENT PROPERTIES (Continued)

Valuation techniques (Continued)

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 2017 HK$'000	31 December 2016 HK$'000	Valuation technique	Fair value hierarchy	Monthly market unit rent	Market unit value	Capitalisation rates	Sensitivity
Investment properties located in the PRC	**21,760**	19,670	Direct sales comparison approach and income approach	Level 3	RMB10.6 to RMB42 per square metre (2016: RMB10.6 to RMB42 per square metre)	RMB1,792 to RMB8,902 per square metre (2016: RMB1,741 to RMB8,748 per square metre)	4.6% to 8.3% (2016: 4.8% to 8.5%)	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	Direct sales comparison approach	Level 2	N/A	USD nil per square metre (2016: 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.

19. INVESTMENT PROPERTIES (Continued)

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

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 2017 HK$'000
Commercial and office buildings located in the PRC	–	17,084	17,084
Petrol stations and land located in the PRC	–	4,676	4,676
	–	21,760	21,760

	Level 2 HK$'000	Level 3 HK$'000	Fair value as at 31 December 2016 HK$'000
Commercial and office buildings located in the PRC	–	15,503	15,503
Petrol stations and land located in the PRC	–	4,167	4,167
Land located in Madagascar	9,300	–	9,300
	9,300	19,670	28,970

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

The following shows the details of rental income earned by the Group during the years ended 31 December 2017 and 31 December 2016:

	2017 HK$'000	2016 HK$'000
Gross rental income from investment properties	1,644	1,566
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	–	–
	1,644	1,566

20. EXPLORATION AND EVALUATION ASSETS

	HK$'000
Cost	
At 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 and 1 January 2017	12,442,009
Additions	7,307
Disposals and written off	(5,457)
Transfer to property, plant and equipment *(note 17)*	(887)
Exchange differences	2,579
At 31 December 2017	12,445,551
Accumulated impairment	
At 1 January 2016	12,412,300
Impairment loss recognised during the year	2,143
At 31 December 2016, 1 January 2017 and 31 December 2017	12,414,443
Carrying amount	
At 31 December 2017	**31,108**
At 31 December 2016	27,566

20. 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 2017

The Two Exploration Blocks in Madagascar were fully impaired during the year ended 31 December 2016 and no impairment loss or reversal of impairment was recognised for the year ended 31 December 2017. In November 2017, the rights to explore in the Two Exploration Blocks were expired.

Impairment test – E&E in Canada

For the year ended 31 December 2017

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, there were no impairment recognised for the year ended 31 December 2017 (2016: HK$nil).

21. INVENTORIES

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

22. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (2016: 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:

	2017 HK$'000	2016 HK$'000
0 to 30 days	124,549	23,052
31 to 60 days	458	506
61 to 90 days	131	137
Over 90 days	2,519	427
	127,657	24,122

The Directors believe that no impairment loss is necessary in respect of these balances as there has not been a significant change in credit quality of these debtors and the balances are still considered fully recoverable. The amount of HK$2,519,000 (2016: HK$427,000) was 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:

	2017 HK$'000	2016 HK$'000
Over 90 days	2,519	427

23. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2017 HK$'000	2016 HK$'000
Prepaid lease payments *(note 18)*	**483**	448
Prepayments to suppliers of refined oil products	**319,802**	98,411
Other prepayments	**3,088**	2,800
Other deposits	**372**	429
Other receivables	**30,114**	5,496
	353,859	107,584

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 2017 and 31 December 2016. The Group does not hold any collateral over these balances.

24. DERIVATIVE FINANCIAL INSTRUMENTS

	2017 HK$'000	2016 HK$'000
Current liabilities		
Derivative components of convertible bonds *(note 29)*	**–**	967
	–	967

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

At 31 December 2017 and 31 December 2016, the Group did not designate any derivative financial instruments as hedging instruments or were held for trading purpose.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Bank balances carry interest at market rates which range from 0.001% to 1.35% (2016: 0.001% to 1.35%) per annum.

Included in the cash and bank balances as at 31 December 2017 were amounts in RMB equivalent to HK$83,336,000 (2016: HK$311,274,000) which are not freely convertible into other currencies.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

(Continued)

(a) Cash and cash equivalents comprise:

	2017 HK$'000	2016 HK$'000
Deposits with banks	**204,863**	605,571
Cash at bank and on hand	**3,135**	4,712
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	**207,998**	610,283

(b) Reconciliation of liabilities arising from financing activities

The table below details changes in the Group's liabilities from financing activities, including both cash and non-cash changes. Liabilities arising from financing activities are liabilities for which cash flows are, or future cash flows will be, classified in the Group's consolidated statement of cash flows as cash flows from financing activities.

	Bank borrowings HK$'000	Convertible bonds HK$'000	Total HK$'000
At 1 January 2017	269,055	366,303	635,358
Changes from financing cash flows:			
Proceeds from new bank borrowings	594,449	–	594,449
Repayment of bank borrowings	(589,094)	–	(589,094)
Interest payments	(13,918)	(26,746)	(40,664)
Total changes from financing cash flows	(8,563)	(26,746)	(35,309)
Exchange adjustments	21,117	–	21,117
Other changes:			
Interest expenses	13,918	36,996	50,914
At 31 December 2017	**295,527**	**376,553**	**672,080**

26. SHARE CAPITAL

	Number of shares		Share capital	
	2017	2016	**2017**	2016
	'000	'000	**HK$'000**	HK$'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 2017, the number of shares in respect of which options had been granted and remained outstanding under the Scheme was 75,000,000 (2016: 12,000,000), representing 0.6% (2016: 0.1%) 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 on the Stock Exchange's daily quotation sheets on the date of grant, which must be a business day; (ii) the average closing price of the Company's shares as stated on the Stock Exchange's daily quotation sheets for the five business days immediately preceding the date of grant; and (iii) the nominal value of the Company's shares.

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

26. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme (Continued)

The maximum number of shares available for issue under options which may be granted under the Scheme of the Company is 684,557,304 (2016: 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% (2016: 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	Number of share options granted	Vesting period	Exercise period	Exercise price	Fair value per share options at grant date
18 October 2016	12,000,000	18 October 2016 to 30 September 2017	1 October 2017 to 30 September 2026	HK$0.2210	1,510,000
1 June 2017	13,000,000	1 June 2017 to 30 September 2017	1 October 2017 to 30 September 2026	HK$0.1842	940,000
	25,000,000	1 June 2017 to 30 September 2018	1 October 2018 to 30 September 2026	HK$0.1842	1,813,000
	25,000,000	1 June 2017 to 30 September 2019	1 October 2019 to 30 September 2026	HK$0.1842	1,832,000

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

	2017		2016	
	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
Outstanding at the beginning of the period	HK$0.2210	12,000,000	–	–
Granted during the period	HK$0.1842	63,000,000	HK$0.2210	12,000,000
Outstanding at the end of the period	HK$0.1901	75,000,000	HK$0.2210	12,000,000
Exercisable at the end of the period	HK$0.2019	25,000,000	–	–

The options outstanding at 31 December 2017 had an exercise price of HK$0.1842 or HK$0.2210 (2016: HK$0.2210) and a weighted average remaining contractual life of 8.75 years (2016: 9.75 years).

During the year ended 31 December 2017, 63,000,000 share options were granted on 1 June 2017. The estimated fair value of the share options granted on 1 June 2017 is HK$4,585,000.

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

26. 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:

	2017	2016
Fair value at measurement date	HK$4,585,000	HK$1,510,000
Share price	HK$0.172	HK$0.220
Exercise price	HK$0.1842	HK$0.2210
Expected volatility	38.80%	61.16%
Expected life	9.33 years	9.96 years
Risk-free interest rate	1.20%	1.04%
Expected dividend yield	–	–

Expected volatility was determined with reference to the average of annualised historical weekly volatility of the Company as at 1 June 2017 and 18 October 2016 (date of grant).

The Group recognised an expense of HK$3,375,000 (2016: HK$327,000) in relation to share options granted by the Company for the year ended 31 December 2017.

27. TRADE AND OTHER PAYABLES

	2017 HK$'000	2016 HK$'000
Trade payables	53,909	23,548
Deposits received in advance from customers	257,128	216,612
Other payables	134,546	124,015
	445,583	364,175

27. 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:

	2017 HK$'000	2016 HK$'000
0 to 30 days	46,787	21,400
31 to 60 days	5,999	1,313
61 to 90 days	429	131
Over 90 days	694	704
	53,909	23,548

As at 31 December 2017 and 31 December 2016, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

28. BANK BORROWINGS

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

	2017 HK$'000	2016 HK$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings *(note (a))*	59,945	55,565
Secured bank borrowings *(note (b))*	235,582	213,490
	295,527	269,055

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

	2017	2016
Floating rate	4.35%–5.25%	3.75%–6.75%

28. BANK BORROWINGS (Continued)

Notes:

(a) As at 31 December 2017, Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") has drawn down unsecured bank borrowings of RMB50,000,000 (equivalent to HK$59,945,000) (2016: RMB50,000,000 (equivalent to HK$55,656,000)). 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 2017, Novus Energy Inc. ("Novus") has drawn down CAD37,875,000 (equivalent to HK$235,582,000) against its CAD42,000,000 credit facilities in the form of bank acceptances.

As at 31 December 2016, Novus has drawn down CAD 37,000,000 (equivalent to HK$213,490,000) against its CAD42,000,000 credit facilities in the form of bank acceptances.

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 2016: 2.00 to 4.50% over the bank's prime lending rate); bankers' acceptances stamping fees ranging from 3.00% to 5.50% (31 December 2016: 3.00% to 5.50%); letters of credit/guarantee fees ranging from 3.00% to 5.50% (31 December 2016: 3.00% to 5.50%); and standby fees ranging from 0.5% to 1.125% (31 December 2016: 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 2016: 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 2017, interest on the revolving operating demand loan was charged at prime plus 2.50% per annum (31 December 2016: prime rate plus 3.0% per annum), bankers' acceptances stamping fees were 3.50% per annum (31 December 2016: 4.00% per annum), letters of credit/guarantee fees were 4.00% per annum (31 December 2016: 4.00% per annum), and standby fees were 0.63% per annum (31 December 2016: 0.75% per annum).

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 2017, the ratio was 1.45:1 (31 December 2016: the ratio was 1.3:1).

The effective interest rate for the bank debt was approximately 5.2% as at 31 December 2017 (2016: 5.9%).

29. 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.

29. 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.

29. 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) was 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 carried at amortised cost using the effective interest method. The derivative financial liabilities component was 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 1 January 2016	353,792
Interest expense *(note 13)*	35,835
Interest paid	(23,324)
Liability component at 31 December 2016 and 1 January 2017	366,303
Interest expense *(note 13)*	36,996
Interest paid	(26,746)
Liability component at 31 December 2017	**376,553**

29. 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	(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 and 1 January 2017	967	–	967
Fair value change *(note 9)*	(967)	–	(967)
Derivative financial liabilities component At 31 December 2017	**–**	**–**	**–**
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
Time to maturity	2 years	1.98 years
Share price	HK$0.218	HK$0.223
HKD/USD exchange rate	7.75	7.75
Conversion price	HK$0.40	HK$0.36
Expected share price volatility	46.30%	46.17%
Risk-free rate	1.19%	1.17%
Discount rate	10.15%	10.38%

29. 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 2017, the fair value of redemption options was HK$nil (2016: HK$967,000).

(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.

30. 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:

	2017 HK$'000	2016 HK$'000
At the beginning of the year	**102,371**	91,060
Change in estimates	**29,094**	8,125
Liabilities incurred	**7,118**	4,528
Liabilities settled	**(6,389)**	(4,654)
Liabilities extinguished on property dispositions	**(3,535)**	(1,959)
Accretion expense *(note 13)*	**2,462**	2,241
Exchange differences	**8,454**	3,030
At the end of the year	**139,575**	102,371

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD25,500,000 (equivalent to HK$158,610,000) (2016: CAD25,602,000 (equivalent to HK$147,724,000)). The obligations were calculated using a risk-free interest rate of 2.30% (2016: 2.30%) and an inflation rate of 2% (2016: 2%). The risk-free interest rate adopted was referenced to the Bank of Canada Benchmark bond rate.

31. DEFERRED TAX ASSETS/(LIABILITIES)

	2017 HK$'000	2016 HK$'000
Deferred tax assets	**75,623**	70,625
Deferred tax liabilities	**(11,347)**	(14,188)
	64,276	56,437

	Property, plant and equipment HK$'000	Prepaid lease payments HK$'000	Investment properties HK$'000	Derivative financial instruments HK$'000	Decommissioning liabilities HK$'000	Non-capital losses HK$'000	Others HK$'000	Total HK$'000
At 1 January 2016	(135,450)	(1,696)	(4,278)	(1,226)	24,586	150,490	(48,981)	(16,555)
Credited/(debited) to profit or loss during the year *(note 14)*	24,428	–	(157)	1,279	2,236	34,545	9,695	72,026
Exchange differences	(4,197)	93	153	(53)	818	4,827	(675)	966
At 31 December 2016 and 1 January 2017	(115,219)	(1,603)	(4,282)	–	27,640	189,862	(39,961)	56,437
(Debited)/credited to profit or loss during the year *(note 14)*	(46,481)	–	1,390	–	7,763	38,842	1,949	3,463
Exchange differences	(9,750)	(126)	(219)	–	2,282	15,442	(3,253)	4,376
At 31 December 2017	**(171,450)**	**(1,729)**	**(3,111)**	**–**	**37,685**	**244,146**	**(41,265)**	**64,276**

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2017 (2016: Nil).

32. 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. Under the MPF scheme, the employer and its employees are each required to make contributions to the plan at 5% of the employees' relevant income, subject to a cap of monthly relevant income of HK$30,000 contributions to the plan vest immediately. 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 state-managed retirement benefit schemes ("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$2,297,000 for the year ended 31 December 2017 (2016: HK$1,884,000) represented contributions payable to the above schemes by the Group.

33. OPERATING LEASES

The Group as lessee

	2017 HK$'000	2016 HK$'000
Minimum lease payments paid under operating leases during the year	8,525	7,819

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:

	2017 HK$'000	2016 HK$'000
Within one year	8,537	8,432
In the second to fifth years inclusive	3,311	11,064
	11,848	19,496

The Group leased office properties, staff quarters and lands under operating lease arrangements. Leases 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$1,644,000 (2016: HK$1,566,000). 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:

	2017 HK$'000	2016 HK$'000
Within one year	901	1,419
In the second to fifth years, inclusive	661	1,227
	1,562	2,646

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

34. COMMITMENTS

The Group had capital commitments to pay property, plant and equipment amounting to HK$29,161,000 (2016: HK$18,814,000) which were contracted but not provided for as at 31 December 2017.

35. CONTINGENT LIABILITIES

As at 31 December 2017, the Group had no material contingent liabilities (2016: Nil).

36. 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

	2017 HK$'000	2016 HK$'000
Salaries and allowances	**12,495**	9,416
Share-based payment expenses	**3,375**	327
Pension scheme contributions	**36**	30
	15,906	9,773

During the year ended 31 December 2017, the Group had the following connected transactions with a related party arising from the refined oil supply agreement dated 30 December 2016 entered into between Henan Yanchang and Yanchang Petroleum Group in respect of the purchase of refined oil from Yanchang Petroleum Group by Henan Yanchang for the three years ending 31 December 2019:

Name of related party	Relationship	Nature of transactions	**2017 HK$'000**	2016 HK$'000
Yanchang Petroleum Group	A substantial shareholder	Purchase of refined oil	**1,090,621**	740,182

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".

37. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2017 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	1 share	–	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
Forever Mind Limited	Hong Kong	100 shares	–	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

37. 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	1 share	–	100	Provision of management services to the holding company
Yanchang International (Canada) Limited	Canada	Common CAD304,100,594	–	100	Investment holding
Novus	Canada	Common CAD205,371,475	–	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		Profit/(loss) allocated to non-controlling interests		Accumulated non-controlling interests	
		2017	2016	**2017 HK$'000**	2016 HK$'000	**2017 HK$'000**	2016 HK$'000
Henan Yanchang	PRC	**30%**	30%	**7,037**	(2,301)	**99,410**	88,042
Henan Yanchang Energy	PRC	**30%**	30%	**(373)**	(269)	**17,253**	16,342

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.

37. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang

	2017 HK$'000	2016 HK$'000
Current assets	561,011	431,502
Non-current assets	170,607	157,261
Current liabilities	(386,452)	(282,623)
Non-current liabilities	(13,799)	(12,666)
Equity attributable to the owners of the Company	231,957	205,432
Non-controlling interests	99,410	88,042
Revenue	16,408,647	20,369,188
Cost of sales	(16,354,663)	(20,305,987)
Expenses	(30,526)	(70,871)
Profit/(loss) for the year attributable to the owners of the Company	16,421	(5,369)
Profit/(loss) for the year attributable to the non-controlling interests	7,037	(2,301)
Profit/(loss) for the year	23,458	(7,670)
Other comprehensive income for the year attributable to the owners of the Company	10,087	(12,436)
Other comprehensive income for the year attributable to the non-controlling interests	4,323	(5,236)
Other comprehensive income for the year	14,410	(17,672)
Total comprehensive income for the year attributable to the owners of the Company	26,508	(17,805)
Total comprehensive income for the year attributable to the non-controlling interests	11,360	(7,537)
Total comprehensive income for the year	37,868	(25,342)
Dividend paid to non-controlling interests	(2,660)	–
Net cash (outflow)/inflow from operating activities	(215,950)	111,731
Net cash outflow from investing activities	(10,138)	(6,084)
Net cash outflow from financing activities	(10,275)	(62,817)
Net cash (outflow)/inflow	(236,363)	42,830

37. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang Energy

	2017 HK$'000	2016 HK$'000
Current assets	**3,325**	3,028
Non-current assets	**123,437**	129,218
Current liabilities	**(69,252)**	(77,771)
Equity attributable to the owners of the Company	**40,257**	38,132
Non-controlling interests	**17,253**	16,342
Revenue	**–**	–
Expenses	**(1,244)**	(897)
Loss for the year attributable to the owners of the Company	**(871)**	(628)
Loss for the year attributable to the non-controlling interests	**(373)**	(269)
Loss for the year	**(1,244)**	(897)
Other comprehensive income for the year attributable to the owners of the Company	**3,012**	(3,220)
Other comprehensive income for the year attributable to the non-controlling interests	**1,292**	(967)
Other comprehensive income for the year	**4,304**	(4,187)
Total comprehensive income for the year attributable to the owners of the Company	**2,141**	(3,848)
Total comprehensive income for the year attributable to the non-controlling interests	**919**	(1,236)
Total comprehensive income for the year	**3,060**	(5,084)
Net cash inflow from operating activities	**260**	4,817
Net cash outflow from investing activities	**(246)**	(6,905)
Net cash inflow from financing activities	**–**	1,147
Net cash inflow/(outflow)	**14**	(941)

38. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2017 HK$'000	2016 HK$'000
Assets		
Non-current assets		
Interests in subsidiaries	1,720,903	1,601,583
Property, plant and equipment	11	31
	1,720,914	1,601,614
Current assets		
Prepayments and other receivables	27,000	517
Cash and bank balances	112,943	224,815
	139,943	225,332
Total assets	1,860,857	1,826,946
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	242,911	242,911
Reserves	1,206,076	872,910
Total equity	1,448,987	1,115,821
Liabilities		
Current liabilities		
Amount due to a subsidiary	1,054	311,069
Other payables	34,263	32,786
Derivative financial instruments	–	967
Convertible bonds	376,553	–
	411,870	344,822
Non-current liabilities		
Convertible bonds	–	366,303
Total liabilities	411,870	711,125
Total equity and liabilities	1,860,857	1,826,946
Net current liabilities	(271,927)	(119,490)
Total assets less current liabilities	1,448,987	1,482,124

38. 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$'000	Convertible bonds reserve HK$'000	Accumulated losses HK$'000	Total HK$'000
At 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 income for the year	–	–	–	–	(183,045)	(183,045)
At 31 December 2016 and 1 January 2017	1,763,060	6,454,818	327	16,373	(7,361,668)	872,910
Recognition of convertible bonds reserve	–	–	–	–	–	–
Recognition of share-based payment expenses	–	–	3,375	–	–	3,375
Profit and total comprehensive income for the year	–	–	–	–	329,791	329,791
At 31 December 2017	**1,763,060**	**6,454,818**	**3,702**	**16,373**	**(7,031,877)**	**1,206,076**

39. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 28 March 2018.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2017 are as follows:

Location	Type	Tenure	Attributable interest to the Group
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%