



延長石油國際有限公司

YANCHANG PETROLEUM INTERNATIONAL LIMITED

(Incorporated in Bermuda with limited liability)

Stock Code: 00346

2019 ANNUAL REPORT







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CORPORATE INFORMATION

EXECUTIVE DIRECTORS

Mr. Li Yi (*Chairman*)
Ms. Sha Chunzhi
Mr. Gao Hairen
Mr. Li Jun

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
Public Interest Entity Auditor registered in accordance with the Financial Reporting Council Ordinance
Certified Public Accountants
8th Floor, Prince's Building
10 Chater Road
Central, Hong Kong

REGISTERED OFFICE

Clarendon House
2 Church Street
Hamilton HM 11
Bermuda

BERMUDA PRINCIPAL SHARE REGISTRAR AND TRANSFER OFFICE

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

HONG KONG BRANCH SHARE REGISTRAR AND TRANSFER OFFICE

Tricor Tengis Limited
Level 54 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.
Bank of China Limited
National Bank of Canada

HEAD OFFICE AND PRINCIPAL PLACE OF BUSINESS IN HONG KONG

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STOCK CODE

00346

WEBSITE

www.yanchanginternational.com

CHAIRMAN'S STATEMENT

International oil price rise muted in the second half of 2019 as affected by US-China trade and geopolitical tensions, leading the oil market to a wobble, but oversupply remained in general. Under such challenging market environment, management of the Company has secured the level of production volume of upstream properties in Canada, renewed oil supply agreement for refined oil business in China, optimised financial structure and minimised administrative and operating costs in order to lay a concrete foundation for future development of the Company.

UPSTREAM OIL AND GAS PRODUCING BUSINESS IN CANADA

In 2019, Novus Energy Inc. ("Novus") achieved an average daily production of 2,044 barrels of equivalent ("BOE"). In addition to minimising production cost, the management team has unlocked the potential of the existing assets of Novus to the greatest extent by optimising on-site process. As a result, Novus has successfully fulfilled its 2019 production target while cutting down its basic expenditure.

Production and Sales

In 2019, putting greater effort on in-depth survey of exploration blocks and well sites as well as optimisation of drilling methods, Novus has increased its initial production volume of new wells from 72 barrels daily in 2018 to 86 barrels daily in 2019. Sales of crude oil by Novus in 2019 was 746,000 barrels, Novus achieved its annual production target with underspending of capital expenditure budget by 26.3%. The operating netback per BOE in 2019 was CAD28.93, an increase of 20.8% against budget, and administrative and management expenditure was CAD5.05 per BOE, a decrease of 25.6% against budget. The operations of Novus achieved zero-pollution with no accidents reported throughout the year, and its business was conducted in full compliance with government regulatory requirements. In the second quarter of 2019, 4 wells held by Novus were ranked among top 15 in Viking region in terms of daily production volume. Novus has drilled 14 wells, in total, in 2019.

In 2019, Novus strived to cope with unfavourable situations, such as oversupply of crude oil resources in the market and traffic interruption, by improving delicacy management of oil fields and omni-channel transportation, relentlessly securing its production and sales. As oil pipeline quotas have fluctuated substantially, Novus expanded its flexibility of vehicle transportation and adjusted sales points to maximise economic value.

Exploration Activities

In 2019, Novus devoted a great deal of effort on survey and selection of oil and gas exploration projects. By assessing economic efficiency and managing reserves, Novus kept on optimising exploration projects and putting in more efforts on development of projects with high returns, successfully achieving its annual production target. In addition, mining rights of 41.86 square kilometers were acquired in 2019, so as to support sustainable development of Novus.

Financing

To raise capital required for development without the dilemma of rising borrowing costs, Novus has obtained a loan with a principal of US\$35 million from Yanchang Petroleum Group (Hong Kong) Co., Limited ("Yanchang Petroleum HK") with considerable support and substantial assistance of Shaanxi Yanchang Petroleum (Group) Co., Limited ("Yanchang Petroleum Group"). The proceeds from the loan has been used for repayment of a loan from National Bank of Canada at the end of 2019, effectively improving the financial structure of Novus and reducing its finance costs. Granting of the loan agreement represents the support of Yanchang Petroleum Group, the ultimate parent company, and provides a new driver for the development of upstream oil and gas producing business of Novus in Canada.

CHAIRMAN'S STATEMENT

DOWNSTREAM REFINED OIL TRADING BUSINESS IN CHINA

In the wake of challenging market situation and competitive environment since 2019, management of Henan Yanchang Petroleum Sales Co., Limited ("Henan Yanchang") has worked on the market in a thoughtful manner and created novel model by pursuing its growth strategy of "Consolidating markets to increase sales volume, Creating economic benefits to secure revenue, Improving delicacy management to reduce costs, Actively exploring opportunity for transformation and Precisely identifying and controlling risks", leading to a healthy and steady development of sales business. Accumulated refined oil sales of Henan Yanchang in 2019 recorded 3,700,000 tonnes, representing a year-on-year growth of 14.78%, the operating revenue was RMB7.06 billion with total profit of RMB28,200,000. 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.

Outstanding Performance of Broadening Customer Base

In 2019, marketing team of Henan Yanchang paid numerous visits to all spots of sales along highways to explore sales opportunity among peripheral gas stations and other oil consuming companies, expanding its geographical coverage. Henan Yanchang expands its sales markets into Qinghai, Tibet, Inner Mongolia, Ningxia, Shandong, Hunan, and Jiangsu in order to broaden its customer base. Henan Yanchang has secured 201 new customers during the year, representing a year-on-year increase of 68.91%, and sales volume from those customers were 245,700 tonnes.

Outstanding Performance of Upgrade and Reformation of Gas Stations

Firstly, Henan Yanchang has determinedly prepared and formulated its three-year development plan for terminal network, putting 3 recycling gas stations in operation upon the completion of upgrade and reformation. Sales of refined oil at 4 gas stations recorded 10,805 tonnes in total in 2019, representing a year-on-year increase of 76.39%. Secondly, research and survey has been conducted on 386 gas stations surrounding Zhengzhou, 36 of which involved in-depth research and survey. As generation of big data for terminal network of Henan Yanchang has initially completed, 3 gas stations were identified as target for co-operation.

Renewal of Oil Supply Agreement

On 12 November 2019, Henan Yanchang entered into a new oil supply agreement with Yanchang Petroleum Group for supplying refined oil to Henan Yanchang for a further three-year terms. In addition to stable supply of refined oil, the new oil supply agreement has set out a relatively favourable price of refined oil offered by Yanchang Petroleum Group, enhancing the profitability of the refined oil business of Henan Yanchang. Hence, it has laid a concrete foundation for long-term development of Henan Yanchang.

OUTLOOK

2020 will remain a challenging year. US-China phase 1 trade deal is likely to be the result of mutual concessions and a brief intermission. Economic growth in China will slow down due to its deleveraging cycle. Unusual and unexpected events, such as novel coronavirus outbreak, may cause further economic ravages. In view of the above, management of the Company has taken precautionary and practical measures, including making real progress on exploration and development by Novus, moderately increasing production volume on stable ground and reducing production and operating costs as the targets. In addition to efficiency fulfillment and growth security, business of Henan Yanchang will be expanded and consolidated. The Group will devote more efforts on development of domestic and overseas trading of oil products, nurturing a new profit driver of the Group. More importantly, the Group will seek opportunities to introduce new energy, new technology, new strategic co-operation partners and new investors, expand business scale and diversify financing channel to enhance the profitability of the Group, creating and maximising value to its shareholders.

MANAGEMENT DISCUSSION AND ANALYSIS

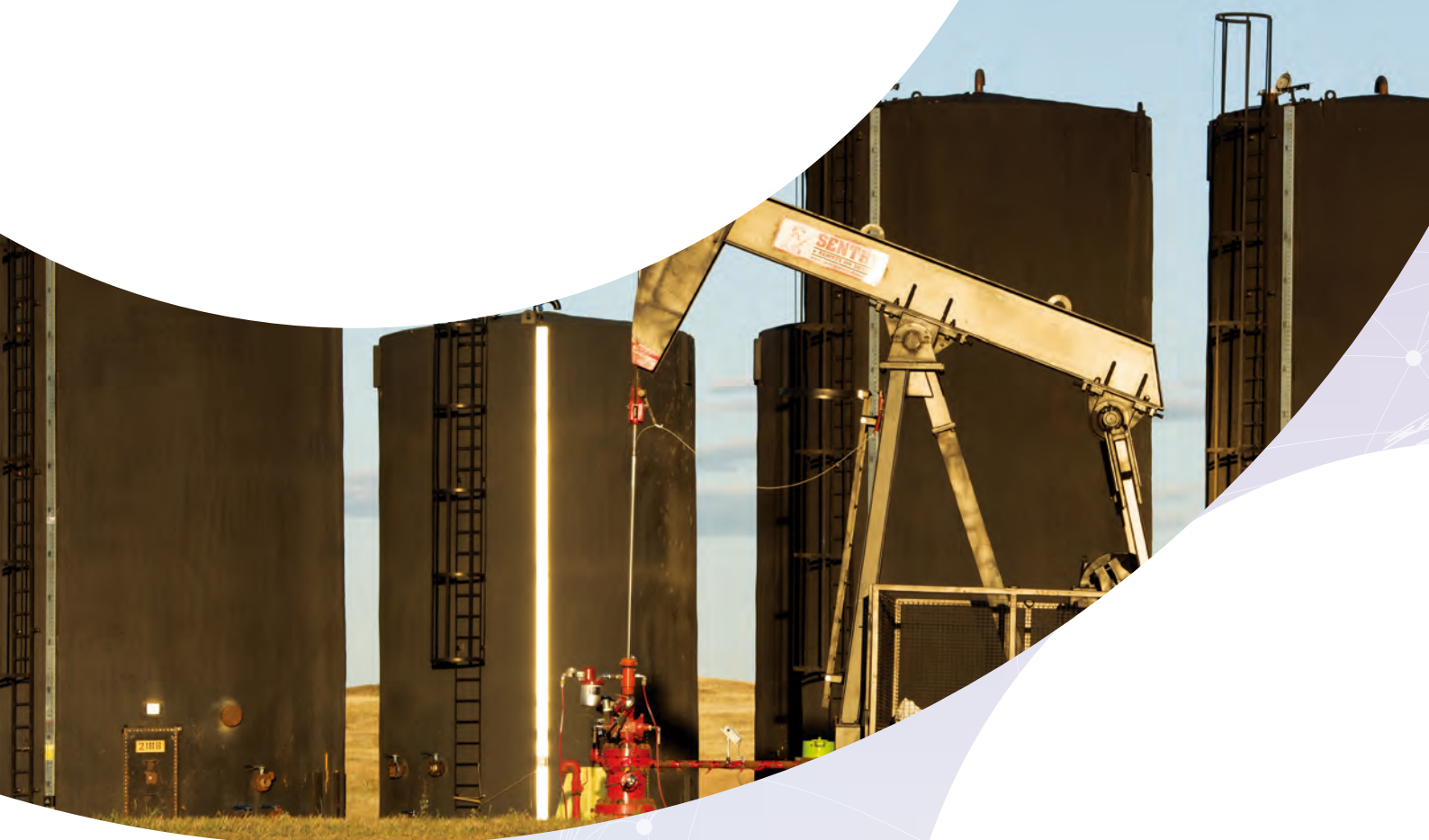
FINANCIAL REVIEW

The board (the "Board") of directors (the "Director(s)") of the Company is pleased to announce the audited consolidated results of the Group for the year ended 31 December 2019 together with the comparative figures as follows:

Highlights on financial results

	2019 HK\$'000	2018 HK\$'000	Change in %
Revenue	8,197,422	5,933,388	38%
Other revenue	11,484	19,019	(40%)
Purchases	(7,878,319)	(5,602,190)	41%
Royalties	(26,700)	(33,329)	(20%)
Field operation expenses	(72,007)	(74,719)	(4%)
Exploration and evaluation expenses	(2,337)	(3,007)	(22%)
Selling and distribution expenses	(13,347)	(9,526)	40%
Administrative expenses	(75,974)	(91,267)	(17%)
Depreciation, depletion and amortisation	(145,585)	(138,436)	5%
Other gains and losses	(304,891)	99,743	N/A
Finance costs	(61,850)	(59,197)	4%
Taxation	(62,660)	(34,211)	83%
(Loss)/profit for the year	(434,764)	6,268	N/A

MANAGEMENT DISCUSSION AND ANALYSIS



FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Segment revenue and segment results

For the year under review, the Group's operating segments comprised (i) exploration, exploitation and operation business, and (ii) supply and procurement business. During the year ended 31 December 2019, the Group's turnover was mainly derived from the production of oil and natural gas in Canada as well as the trading of refined oil in the People's Republic of China (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 746,000 BOE and contributed production income of HK\$228,803,000

during the year under review as compared to production of 844,000 BOE and production income of HK\$272,895,000 of the previous year. Due to crude oil prices dropped as a result of US-China trade dispute and the slowing global economy, the exploration, exploitation and operation business recorded an operating loss of HK\$52,173,000 this year as compared to an operating loss of HK\$605,000 last year.

Due to a increase in sales volume from the previous year of 3.2 million tonnes to this year of 3.7 million tonnes, the revenue of oil products trading business of the PRC increased by 41% from the previous year of HK\$5,660,493,000 to this year of HK\$7,968,619,000 and contributed a segment operating profit of HK\$42,370,000, as compared to a profit of HK\$20,237,000 in the previous year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Other revenue

Apart from the aforesaid segment results, other revenue of HK\$11,484,000 which mainly represented interest income from bank deposits and storage fee income from the PRC was recorded for the year under review, compared to that of HK\$19,019,000 in the previous year.

Purchases

Purchases were wholly derived from the oil products trading business in the PRC, which increased from the previous year of HK\$5,602,190,000 to this year of HK\$7,878,319,000. The increase of purchases was mainly due to the increase 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, decreased from last year of HK\$33,329,000 to current year of HK\$26,700,000 due to drop in oil prices and sale volume.

Field operation expenses

Due to the decrease in production, field operation expenses decreased to this year of HK\$72,007,000 from the previous year of HK\$74,719,000. 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.

Exploration and evaluation expenses

Exploration and evaluation expenses amounted to HK\$2,337,000 which represented the holding costs, mainly lease rentals, on the interests of non-producing lands held by Novus, compared to that of HK\$3,007,000 in the previous year.

Selling and distribution expenses

Selling and distribution expenses, increased from the previous year of HK\$9,526,000 to the current year of HK\$13,347,000. Such increase in the expenses was mainly incurred by Henan Yanchang as a result of increase in trading volume of refined oil in the PRC.

Administrative expenses

Administrative expenses including directors' remuneration, staff costs, office rentals, professional fees and listing fee etc, amounted to HK\$75,974,000 this year, compared to HK\$91,267,000 of the previous year. Such decrease was mainly attributable to the scale down of business development expenditure during the year.

Depreciation, depletion and amortisation

Depreciation, depletion and amortisation increased from the previous year of HK\$138,436,000 to the current year of HK\$145,585,000. This was mainly due to the increase in depletion of Novus in Canada during the year under review.

Other gains and losses

Other losses of HK\$304,891,000 recorded this year including (i) the impairment loss on the petroleum and natural gas properties in Canada owned by Novus amounting to HK\$286,043,000, (ii) written off of expired exploration and evaluation assets of HK\$6,311,000 and (iii) loss on hedging of oil and gas commodity contracts of HK\$15,046,000 and after offsetting (iv) fair value gain on investment properties of HK\$1,100,000 and (v) other gains of HK\$1,409,000.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial results *(Continued)*

Finance costs

Finance costs of HK\$61,850,000 comprised (i) bank borrowing costs of HK\$26,683,000 related to the businesses of Novus and Henan Yanchang, (ii) accretion expenses of HK\$3,098,000 related to the provision of the decommissioning liabilities incurred by Novus, (iii) imputed interest of HK\$31,688,000 arising from the issue of the convertible bonds, and (iv) imputed interest of HK\$381,000 related to lease liabilities.

Taxation

Taxation of HK\$62,660,000 comprised (i) provision for the PRC enterprise income tax on the profit earned from the refined oil trading business of the PRC amounted to HK\$14,194,000 and (ii) written off of deferred tax assets amounted to HK\$48,466,000.

Loss for the year

During the year under review, Henan Yanchang still performed well and remained profitable. However, due to the continued sluggish international crude oil prices, the Group as a whole recorded a loss of HK\$434,764,000 for the year in contrast of a profit of HK\$6,268,000 last year.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial position

	2019 HK\$'000	2018 HK\$'000	Change in %
Property, plant and equipment	1,653,657	1,909,854	(13%)
Prepaid lease payments	–	15,602	N/A
Investment properties	16,718	16,794	–
Exploration and evaluation assets	16,802	19,319	(13%)
Right-of-use assets	24,656	–	N/A
Goodwill and intangible asset	58,149	58,149	–
Inventories	31,541	67,278	(53%)
Trade receivables	170,711	239,188	(29%)
Prepayments, deposits and other receivables	267,705	261,299	2%
Cash and bank balances	298,688	316,768	(6%)
Trade and other payables	(302,846)	(489,154)	(38%)
Bank borrowings	(257,025)	(425,659)	(40%)
Convertible bonds	(467,755)	(464,327)	1%
Decommissioning liabilities	(129,114)	(128,094)	1%
Lease liabilities	(10,400)	–	N/A
Secured term loan	(271,384)	–	N/A

Property, plant and equipment

Property, plant and equipment consisted of buildings, furniture, fixtures and equipment, plant and machineries, motor vehicles, petroleum and natural gas properties and construction-in-progress amounted to HK\$1,653,657,000. The decrease for the year was mainly attributable to the recognition of impairment loss on petroleum and natural gas properties of Novus in Canada.

Prepaid lease payments

Prepaid lease payments represented the leasehold lands in the PRC owned by Henan Yanchang. This was reclassified as right-of-use assets as at 1 January 2019.

Investment properties

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

Exploration and evaluation assets

Exploration and evaluation assets mainly represented the undeveloped land held by Novus as at 31 December 2019.

Right-of-use assets

Right-of-use assets consisted of leasehold lands in the PRC owned by Henan Yanchang and office rental operated in the PRC, Hong Kong and Canada by the Group.

MANAGEMENT DISCUSSION AND ANALYSIS

FINANCIAL REVIEW *(Continued)*

Highlights on financial position *(Continued)*

Goodwill and intangible asset

Goodwill and intangible asset was arisen on the acquisition of 70% interest in Henan Yanchang by the Group in 2011. No impairment had been made for such asset during the year, hence the amount remained the same as the previous year.

Inventories

Inventories mainly represented the refined oil held in oil storage tanks of Henan Yanchang in the PRC as at 31 December 2019.

Trade receivables

Trade receivables represented account receivables from both customers of Novus in Canada and Henan Yanchang in the PRC as at 31 December 2019. The outstanding amounts had been mostly recovered in January 2020.

Prepayments, deposits and other receivables

Prepayments, deposits and other receivables increased to this year of HK\$267,705,000 from the previous year of HK\$261,299,000. 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 in the PRC.

Cash and bank balances

As at 31 December 2019, cash and bank balances decreased by HK\$18,080,000 and maintained at HK\$298,688,000 as compared to the last year of HK\$316,768,000.

Trade and other payables

Trade and other payables mainly represented trade payables to suppliers and prepayments received in advance from customers of refined oil trading business in the PRC as at 31 December 2019.

Bank borrowings

The amount represented loans from banks of the PRC to finance the refined oil trading business of Henan Yanchang.

Convertible bonds

The amount represented the US\$60 million 2-year convertible bonds with coupon interest rate of 6% issued to Yanchang Petroleum HK in November 2018.

Decommissioning liabilities

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

Lease liabilities

The amount represented the obligation to make lease payments in relation to the office rentals in the PRC, Hong Kong and Canada.

Secured term loan

The amount represented the US\$35 million 3-year secured term loan granted to Novus by Yanchang Petroleum HK as general working capital for operation.

MANAGEMENT DISCUSSION AND ANALYSIS

LIQUIDITY AND FINANCIAL RESOURCES

The Group funded its operation mainly by its internal resources together with bank borrowings, convertible bonds and secured term loan for the year ended 31 December 2019.

	2019 HK\$'000	2018 HK\$'000
Current assets	768,645	893,252
Total assets	2,545,384	2,989,682
Current liabilities	1,032,930	914,849
Total liabilities	1,452,038	1,518,745
Total equity	1,093,346	1,470,937
Gearing ratio	132.8%	103.3%
Current ratio	74.4%	97.6%

The Group had outstanding variable interest rates bank borrowings amounted to HK\$257,025,000 as at 31 December 2019 (31 December 2018: HK\$425,659,000) which was equivalent to RMB230,000,000 under Henan Yanchang. The Group has obtained bank facilities of HK\$335,250,000 (equivalent to RMB300,000,000) from banks in the PRC in writing or verbal form.

On 28 November 2018, the Company raised fund from the issue of convertible bonds to Yanchang Petroleum HK in the principal amount of US\$60,000,000 (equivalent to HK\$471,000,000) which carry coupon interest with 6% and mature on the second anniversary date from the date of issue. Part of the fund raised amounted to HK\$383,897,000 had been used for the repayment of the convertible bonds issued to China Construction Bank Corporation ("CCBC") in 2015 and the balance is used as general working capital for the Group's business needs. The principal of convertible bonds was still outstanding as at 31 December 2019.

On 20 December 2019, Novus has drawn down the secured term loan of US\$35,000,000 which bears interest rate at 4.8% per annum and repayable in 3 years. The secured term loan granted to Novus by Yanchang Petroleum HK as general working capital for operation.

As at 31 December 2019, the Group had cash and bank balances of HK\$298,688,000 (31 December 2018: HK\$316,768,000). 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 2019, the gearing ratio of the Group, measured on the basis of total liabilities as a percentage of total equity, was 132.8% as compared to 103.3% 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 74.4% as at 31 December 2019 (31 December 2018: 97.6%).

MANAGEMENT DISCUSSION AND ANALYSIS

COMMODITY PRICE MANAGEMENT

Novus is engaged in crude oil and gas development, production and selling activities. Prices of crude oil and gas are affected by both domestic and global factors which are beyond the control of Novus. The fluctuations in such prices may have favourable or unfavourable impacts to the Group. Therefore the Group was exposed to general price fluctuations of crude oil and gas. During the year ended 31 December 2019, Novus had entered sixty two 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 2019.

SIGNIFICANT INVESTMENTS

The Group did not hold any significant investments as at 31 December 2019.

CAPITAL COMMITMENTS

As at 31 December 2019, the Group had commitments related to property, plant and equipment amounted to HK\$1,713,000 (31 December 2018: HK\$25,362,000).

Save as the aforesaid, the Group did not have any other material commitments as at 31 December 2019.

PLEDGE OF ASSETS

US\$35 million secured term loan granted by Yanchang Petroleum HK, available to Novus, is secured by the debenture of US\$70 million with first and fixed charge over all of Novus's right, title and interest, with floating charge over all assets of Novus.

Save as the aforesaid, none of the Group's other assets had been pledged for granting the bank and other borrowings.

CONTINGENT LIABILITIES

As at 31 December 2019, the Group did not have any significant contingent liabilities (31 December 2018: Nil).

LITIGATION

As at 31 December 2019, the Group had no material litigation (31 December 2018: Nil).

MANAGEMENT DISCUSSION AND ANALYSIS

EMPLOYEES AND REMUNERATION POLICIES

As at 31 December 2019, the Group's total number of staff was 163 (2018: 158). Salaries of employees are maintained at a competitive level with total staff costs for the year ended 31 December 2019 amounted to HK\$63,719,000 (2018: HK\$67,892,000). 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. No share option was granted under the Company's share option scheme during the year ended 31 December 2019 and 31 December 2018.

DIVIDENDS

The Board does not recommend the payment of any dividends for the year ended 31 December 2019 (31 December 2018: 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 2019 and 2018.

The Group's health, safety and environment policies 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 and the PRC, 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 and the PRC.

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 2019 and its opinion that the reserve estimates are reasonable.

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

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

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

Net proved reserves	Canada		Total (Mboe)
	Oil and natural gas liquids (Mbbbl)	Natural gas (MMcf)	
At 1 January 2019	12,081.2	21,975.0	15,743.6
Acquisition	–	–	–
Production	(626.5)	(719.0)	(746.4)
Disposals	–	–	–
Discoveries & revisions	(327.2)	(230.0)	(365.4)
At 31 December 2019	11,127.5	21,026.0	14,631.8

Net probable reserves	Canada		Total (Mboe)
	Oil and natural gas liquids (Mbbbl)	Natural gas (MMcf)	
At 1 January 2019	4,397.1	8,687.0	5,844.8
Acquisition	–	–	–
Disposals	–	–	–
Discoveries & revisions	(179.6)	(392.0)	(244.8)
At 31 December 2019	4,217.5	8,295.0	5,600.0

Net proved + probable reserves	Canada		Total (Mboe)
	Oil and natural gas liquids (Mbbbl)	Natural gas (MMcf)	
At 1 January 2019	16,478.3	30,662.0	21,588.4
Acquisition	–	–	–
Production	(626.5)	(719.0)	(746.4)
Disposals	–	–	–
Discoveries & revisions	(506.8)	(622.0)	(610.2)
At 31 December 2019	15,345.0	29,321.0	20,231.8

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
Mbbbl = thousand barrels
Mcf = thousand cubic feet
MMcf = million cubic feet

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

B. MAJOR EXPLORATION, DEVELOPMENT AND PRODUCTION ACTIVITIES

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

	Canada	Madagascar
Exploration activities:	4,186 hectares unproved land acquired	Nil
Development activities:	14 wells drilled 14 wells completed	Nil
Production activities:	Average daily net production Oil: 1,716 bbl Gas: 1,969 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 2019:

	Canada HK\$'000	Madagascar HK\$'000	Total HK\$'000
Exploration costs	6,279	–	6,279
Developments costs	95,283	–	95,283
Production costs (<i>note</i>)	72,007	–	72,007

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 56, 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.

Ms. Sha Chunzhi

Aged 46, was appointed as an executive Director on 2 December 2016. Ms. Sha has joined the Financial Company of Yanchang Petroleum Group since September 2013, and is currently the chief economist of Yanchang Petroleum Group, the chairman and the deputy secretary of the Party Committee of Financial Company. During the period from January 1997 to May 2009, Ms. Sha 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.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

EXECUTIVE DIRECTORS *(continued)*

Mr. Gao Hairen

Aged 53, was appointed as an executive Director on 12 January 2018. Mr. Gao 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 42, was appointed as an executive Director on 12 January 2016. Mr. Li is currently the department head of 國際合作部 (International Cooperation Department) of Yanchang Petroleum Group. Mr. Li has worked with the said department since May 2008 and was successively the supervisor and the deputy department head. Mr. Li has been involved in foreign investment and cooperation for a considerable period of time and possesses solid experience in external cooperation and project management. He obtained a bachelor's degree and a master's degree in microelectronics and solid-state electronics from 西安電子科技大學 (Xidian University) in Xian. He is also a senior engineer. Save as the aforesaid, Mr. Li did not hold any directorship in other listed companies during the past three years.

INDEPENDENT NON-EXECUTIVE DIRECTORS

Mr. Ng Wing Ka

Aged 50, 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 Certificate in Laws from The University of Hong Kong. He is the partner of Tung, Ng, Tse & Lam, Solicitors. Mr. Ng is also a Council Member of the Hong Kong Polytechnic University, a director of the Hong Kong Science & Technology Parks Corporation and a member of the Chinese People's Political Consultative Conference of Chongqing City, the PRC. He has been elected as a member of the Legislative Council (Industrial (second) Functional Constituency) on 4 September 2016. Mr. Ng has been appointed as chairman of HKSAR Passports Appeal Board since July 2019. Mr. Ng has been appointed as an independent non-executive director of MTR Corporation Limited (a company listed on the Stock Exchange) since May 2019. Mr. Ng has also been appointed as an independent non-executive director of Glorious Sun Enterprises Limited (a company listed on the Stock Exchange) since June 2019. He has been acted as an independent non-executive director of China Weaving Materials Holdings Limited (a company listed on the Stock Exchange) from 3 December 2011 to 30 December 2019. Save as the aforesaid, Mr. Ng did not hold any directorship in other listed companies in the past three years.

DIRECTORS' AND SENIOR MANAGEMENT'S BIOGRAPHIES

INDEPENDENT NON-EXECUTIVE DIRECTORS *(Continued)*

Mr. Leung Ting Yuk

Aged 45, 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 Practising Accountants, Australia and the Hong Kong Institute of Certified Public Accountants. He has over 18 years' experience in financial management, accounting and auditing. Mr. Leung has been appointed as an independent non-executive director of Most Kwai Chung Limited (a company listed on the Stock Exchange) since March 2018 and he has also been appointed as an independent non-executive director of Xinyi Energy Holdings Limited (a company listed on the Stock Exchange) since November 2018. He had acted as an independent non-executive director of Hang Tai Yue Group Holdings Limited (a company listed on the Stock Exchange) from 18 May 2016 to 10 January 2019. Save as the aforesaid, Mr. Leung did not hold any directorship in other listed companies in the past three years.

Mr. Sun Liming

Aged 66, 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. Mr. Sun was a managing director of Lishan Company Limited in Hong Kong and a chief representative of Shaanxi Commerce Representative Office in Hong Kong for years, and he served as chief economist with China Electronics Import and Export Shaanxi Company (中國電子進出口陝西公司) as well as worked in stated-owned sectors for various senior economic and financial positions. 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.

Dr. Mu Guodong

Aged 62, was appointed as an independent non-executive Director on 28 December 2012. Dr. Mu was graduated from the School of Economics and Finance of Xi'an Jiaotong University (formerly known as "Shaanxi Institute of Finance & Economics") with a Master degree of Economics in 1988. He was appointed by the State Education Commission of the People's Republic of China as a visiting scholar of Macquarie University in Australia in 1993. Dr. Mu obtained the Endeavour Awards from the Australian Government to study the doctor's degree of Economics in 1995, and obtained his Doctor of Philosophy degree from The University of New England in 2001. Dr. Mu had acted as the assistant to the general manager of the business development department of China Merchants Group Limited, the controlling shareholder of China Merchants Holdings (International) Company Limited (stock code: 144), a company listed on the Stock Exchange. Dr. Mu had acted as the general manager of 招商金葵資本管理有限責任公司 (China Merchants Jinkui Capital Management Company Limited) and had 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 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 56, 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 and a director of certain subsidiaries of the Company.

REPORT OF THE DIRECTORS

The Board has pleasure in presenting the annual report together with the audited consolidated financial statements of the Group for the year ended 31 December 2019.

The head office and principal place of business is situated at Room 3403, 34/F, Lee Garden One, 33 Hysan Avenue, Causeway Bay, 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 3 to 4 and the Management Discussion and Analysis section on pages 5 to 13 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 2019 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 2019 and the state of affairs of the Group at that date are set out in the consolidated financial statements on pages 48 to 139. The state of affairs of the Company on 31 December 2019 is set out in note 39 to the consolidated financial statements.

The Directors do not recommend the payment of any dividends for the year (2018: Nil).

REPORT OF THE DIRECTORS

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

	2019 HK\$'000	Year ended 31 December			2015 HK\$'000
		2018 HK\$'000 (note 2)	2017 HK\$'000 (Restated) (note 1)	2016 HK\$'000	
Revenue	8,197,422	5,933,388	4,092,177	20,568,871	23,320,527
(Loss)/profit before taxation	(372,104)	40,479	(49,651)	(331,317)	(4,642,731)
Taxation	(62,660)	(34,211)	(8,974)	61,025	116,622
(Loss)/profit for the year	(434,764)	6,268	(58,625)	(270,292)	(4,526,109)
(Loss)/profit attributable to					
– Owners of the Company	(443,742)	(741)	(65,289)	(267,722)	(4,544,205)
– Non-controlling interests	8,978	7,009	6,664	(2,570)	18,096
	(434,764)	6,268	(58,625)	(270,292)	(4,526,109)

Assets and liabilities

	2019 HK\$'000	At 31 December			2015 HK\$'000
		2018 HK\$'000 (note 2)	2017 HK\$'000	2016 HK\$'000	
Non-current assets	1,776,739	2,096,430	2,120,180	1,891,790	2,071,260
Current assets	768,645	893,252	743,728	750,430	1,273,914
Total assets	2,545,384	2,989,682	2,863,908	2,642,220	3,345,174
Current liabilities	(1,032,930)	(914,849)	(1,118,340)	(635,048)	(1,135,860)
Non-current liabilities	(419,108)	(603,896)	(150,922)	(482,862)	(461,407)
Total liabilities	(1,452,038)	(1,518,745)	(1,269,262)	(1,117,910)	(1,597,267)
Total equity	1,093,346	1,470,937	1,594,646	1,524,310	1,747,907

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

Note 1: As a result of the adoption of HKFRS 15, *Revenue from contracts with customer*, with effect from 1 January 2018, the Group has changed its accounting policies in respect of revenue recognition. In accordance with the transitional provisions of the standard, the changes in accounting policies were adopted by way of restating comparatives by decreasing both revenue and purchases for supply and procurement business segment for the year ended 31 December 2017. Figures in years earlier than 2017 are stated in accordance with the accounting policies applicable in those years.

Note 2: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated.

REPORT OF THE DIRECTORS

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 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 pages 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 was 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 2019, 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 2019, the Company's reserves available for distribution and/or distribution in specie, calculated in accordance with the Companies Act of Bermuda, is HK\$641,272,000 (2018: HK\$1,055,490,000) which is the sum of the Company's share premium, contribution surplus and accumulated losses as stated in note 39 to the consolidated financial statements which may only be distributed in certain circumstances.

REPORT OF THE DIRECTORS

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 approximately 42% of the Group's total sales for the year. The amount of sales to the Group's largest customer included therein represented approximately 16%.
- (2) The aggregate amount of purchases attributable to the Group's five largest suppliers represented approximately 29% of the Group's total purchases for the year. The amount of purchases from the Group's largest supplier included therein represented approximately 11%.

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 37 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 34 to the consolidated financial statements.

At 31 December 2019, 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*) (*resigned on 1 June 2019*)

Ms. Sha Chunzhi

Mr. Gao Hairen

Mr. Li Jun

Mr. Tan Meng Seng (*resigned on 1 March 2019*)

Independent Non-executive Directors

Mr. Ng Wing Ka

Mr. Leung Ting Yuk

Mr. Sun Liming

Dr. Mu Guodong

Pursuant to Bye-law 87 of the Company's Bye-laws, Ms. Sha Chunzhi, Mr. Leung Ting Yuk and Dr. Mu Guodong will retire by rotation and, being eligible, offer themselves for re-election at the 2020 annual general meeting ("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 17 to 19 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 2020 AGM has a service contract with the Company which is not determinable by the Company within one year without payment of compensation, other than statutory compensation.

REPORT OF THE DIRECTORS

MANAGEMENT CONTRACT

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

DIRECTORS' INTERESTS IN TRANSACTION, ARRANGEMENT AND CONTRACT

Save as disclosed in note 37 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.

REPORT OF THE DIRECTORS

DIRECTORS' INTERESTS IN SHARE CAPITAL

At 31 December 2019, 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:

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. Sun Liming	Personal interest	Long position	600,000	0.005%
Dr. Mu Guodong ("Dr. Mu")	Personal interest and interest of spouse (<i>note 1</i>)	Long position	300,000	0.002%

Note 1: 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 2019, none of the Directors or chief executives of the Company or their respective associates had any personal, family, corporate or other interests in the share capital of the Company or any of its associated corporations as defined in the SFO.

DIRECTORS' RIGHTS TO ACQUIRE SHARES OR DEBENTURES

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

REPORT OF THE DIRECTORS

SHARE OPTION SCHEME

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

75,000,000 share options were granted to Mr. Bruno Guy Charles Deruyck (“Mr. Deruyck”) under the Scheme and out of which 75,000,000 share options lapsed during the period. Details of the movements of the share options granted to Mr. Deruyck under the Scheme during the period were as follows:

Grantee	Date of grant	Exercise period	Exercise price	Number of share options				
				At 1 January 2019	Granted during the year	Lapsed during the year	Exercised during the year	At 31 December 2019
Executive Director								
Mr. Deruyck	18/10/2016	1/10/2017–30/9/2026	HK\$0.221	12,000,000	–	(12,000,000)	–	–
(resigned on 1 June 2019)	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)	–	–
				75,000,000	–	(75,000,000)	–	–

EQUITY-LINKED AGREEMENTS

On 28 November 2018, the Company issued convertible bonds to Yanchang Petroleum HK in the principal amount of US\$60,000,000 (equivalent to HK\$471,000,000) which carry coupon interest with 6% and mature on the second 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\$0.076 per share. Part of the fund raised amounted to HK\$383,897,000 used for the repayment of convertible bonds that was issued to CCBC in 2015 and the balance of the fund is intended to be used as 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\$0.076, 6,189,473,684 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 2019.

REPORT OF THE DIRECTORS

SUBSTANTIAL SHAREHOLDERS

As at 31 December 2019, 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	12,686,203,231	104.45%
Yanchang Petroleum HK (note 1)	Directly owned	Long position	12,686,203,231	104.45%

Note 1:

Yanchang Petroleum Group beneficially held these 12,686,203,231 shares through its direct wholly-owned subsidiary, Yanchang Petroleum HK.

Amongst these 12,686,203,231, 6,189,473,684 Shares represent a deemed interest held by Yanchang Petroleum HK. Pursuant to a subscription agreement dated 12 October 2018 (the "Subscription Agreement") entered into between the Company and Yanchang Petroleum HK, The Company had conditionally agreed to issue, and Yanchang Petroleum HK had conditionally agreed to subscribe for, the convertible bonds of an aggregate principal amount of US\$60,000,000 at the conversion price of HK\$0.076 per Share on completion.

With all the conditions precedent under the Subscription Agreement being fulfilled, completion of subscription took place on 28 November 2018 which enables Yanchang Petroleum HK to subscribe for a maximum of 6,189,473,684 Shares at the conversion price of HK\$0.076 per share upon full conversion of the convertible bonds within the 2-year exercise period.

For illustrative purpose, the approximate percentage of the total issued ordinary share capital of the enlarged capital will be 69.19% immediately after completion upon full conversion of the convertible bonds.

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 2019.

REPORT OF THE DIRECTORS

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 37 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 the Company has complied with the disclosure requirements in accordance with Chapter 14A of the Listing Rules:

- (1) The aggregate value of the continuing connected transactions contemplated under the Supply Agreement for the year ended 31 December 2019 as indicated above did not exceed the 2019 annual cap amount of RMB5,000,000,000 (equivalent to approximately HK\$5,565,500,000); 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.

On 12 November 2019, Henan Yanchang and Yanchang Petroleum Group entered into a new supply agreement pursuant to which Yanchang Petroleum Group will continue to supply the refined oil to Henan Yanchang for the three years ending 31 December 2022, with an annual cap of each of the three years at RMB4,020,000,000 (equivalent to approximately HK\$4,474,662,000).

REPORT OF THE DIRECTORS

EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the outbreak of novel coronavirus (“COVID-19”) in January 2020 has caused disruptions to many industries, including oil and petroleum industry, in China as well as other countries. These disruptions have inevitably posed a significant threat to the global economy in 2020. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The time duration and scope of these disruptions cannot be accurately assessed at this point in time. Given the dynamic nature of these circumstances, the financial impact will be reflected in the Group’s subsequent financial statements. The Group will closely monitor the development of the epidemic and assess its impact on its operations.

Since the beginning of March 2020, due to the failure to reach an agreement to reduce production of the Petroleum Production Reduction Alliance, coupled with the unfavorable outlook of the world economy affected by the COVID-19, international crude oil prices have fallen sharply. On 9 March 2020 and 18 March 2020, U.S. West Texas Intermediate crude oil futures prices fell by 24.6% and 24.4%, respectively. The decline in international crude oil prices has adversely affected the Group’s sales revenue and profits, the Group actively takes measures to deal with the risks of crude oil price fluctuations, and strives to maintain stable and healthy development of production and operations.

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 2019.

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 32 to 42.

COMPLIANCE WITH LAWS AND REGULATIONS

As at 31 December 2019 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.

REPORT OF THE DIRECTORS

CLOSURE OF REGISTER OF MEMBERS

The register of members will be closed from 2 June 2020 to 5 June 2020 (both days inclusive), during which period, no transfer of share(s) will be registered. In order to qualify for attending the 2020 AGM of the Company to be held on 5 June 2020, 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 54, Hopewell Centre, 183 Queen's Road East, Wanchai, Hong Kong for registration, not later than 4:30 p.m. on 1 June 2020.

AUDITORS

With effect from 10 November 2017, HLB Hodgson Impey Cheng Limited ("HLB") resigned as the auditors of the Company. Following the resignation of HLB, KPMG ("KPMG") was appointed as the new auditors of the Company with the recommendation of the Audit Committee.

A resolution will be proposed at the 2020 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, 26 March 2020

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 2019, except for the following deviations:

1. code provision A.6.7 of the CG Code provides that independent non-executive Directors and other non-executive Directors should also attend general meetings and develop a balanced understanding of the views of shareholders. One of the independent non-executive Directors, Mr. Sun Liming was unable to attend at the annual general meeting of the Company held on 30 May 2019 due to other ad hoc engagements.
2. code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was temporarily vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019 as the Company needs times to identify a suitable candidate to assume the role of the chief executive officer.

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 2019.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS

Board Composition

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

- (a) four executive Directors, namely Mr. Li Yi (chairman), Ms. Sha Chunzhi, Mr. Gao Hairen and Mr. Li Jun; 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.

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

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

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

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Corporate Governance Functions

No corporate governance committee has been established and the Board is responsible for performing the corporate governance functions including (i) developing and reviewing the Company's policies, practices on corporate governance and make recommendations 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 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.

CORPORATE GOVERNANCE REPORT

BOARD OF DIRECTORS *(Continued)*

Directors' Continuous Professional Development

The Directors are regularly briefed on the amendments to or updates on the relevant laws, rules and regulations. In addition, the Company has been encouraging the Directors and senior executives to enroll in a wide range of professional development courses and seminars relating to the Listing Rules, Companies Ordinance/Act and corporate governance practices 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 BMI Professional Training Centre Limited on the topic of "Trading Halt, Suspension, Cancellation and Withdrawal of Listing". 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

Code provision A.2.1 of the CG Code provides that the roles of chairman and chief executive officer should be separate and should not be performed by the same individual. The position of the chief executive officer of the Company was temporarily vacant following the resignation of Mr. Bruno Guy Charles Deruyck as an executive Director and chief executive officer on 1 June 2019.

The Board considers that the temporarily vacant will not impair the balance of power and authority between the Board and the management as the Board comprises eight experienced individuals including four executive Directors and four independent non-executive Directors. In addition, 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. With the support of 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.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES

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

Audit Committee

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

The audit committee has reviewed the accounting principles and policies adopted by the Company and discussed with management the 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 2019.

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.

During the year ended 31 December, 2019, the audit committee held four meetings. At the meetings, the committee reviewed (i) positive profit alert announcement in relation to the financial year ended 31 December 2018; (ii) the annual results for the year ended 31 December 2018 with the external auditors, and reviewed and discussed the Group's financial reporting, risk management and internal control systems; (iii) profit warning announcement in relation to interim results for six months ended 30 June 2019; and (iv) the interim results for the period ended 30 June 2019.

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 2019, the remuneration committee held one meeting. At the meeting, the committee reviewed and approved the existing remuneration package of all Directors and senior management of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Remuneration Committee *(Continued)*

The remuneration paid to the senior management by band for the year ended 31 December 2019 and 31 December 2018 is set out as below:

	Number of individuals	
	2019	2018
HK\$		
1,500,001–2,000,000	2	3
2,000,001–2,500,000	1	–
2,500,001–3,000,000	–	1
3,000,001–3,500,000	1	–
	4	4

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 2019, 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 2019 annual general meeting of the Company.

CORPORATE GOVERNANCE REPORT

BOARD COMMITTEES *(Continued)*

Details of the Directors' attendance (either in person or by phone) at the Board meetings, general meetings, audit committee meetings, remuneration committee meetings and nomination committee meetings held during the year ended 31 December 2019 are set out in the table below:

Directors	No. of meetings attended/entitled to attend					
	Special General Meeting	Annual General Meeting	Board	Audit Committee	Remuneration Committee	Nomination Committee
Executive Directors:						
Mr. Li Yi	1/1	1/1	11/11	–	1/1	1/1
Mr. Bruno Guy Charles Deruyck <i>(resigned on 1 June 2019)</i>	0/1	1/1	2/3	–	–	–
Ms. Sha Chunzhi	0/1	0/1	1/11	–	–	–
Mr. Gao Hairen	1/1	0/1	7/11	–	–	–
Mr. Li Jun	0/1	0/1	0/11	–	–	–
Mr. Tan Meng Seng <i>(resigned on 1 March 2019)</i>	0/0	0/0	0/0	–	–	–
Independent Non-executive Directors:						
Mr. Ng Wing Ka	0/1	1/1	9/11	4/4	–	1/1
Mr. Leung Ting Yuk	0/1	1/1	10/11	4/4	1/1	–
Mr. Sun Liming	1/1	0/1	11/11	3/4	1/1	1/1
Dr. Mu Guodong	1/1	1/1	11/11	–	–	–

AUDITORS' REMUNERATION

Auditors' remuneration for the year amounted to a total of HK\$4,163,000, of which HK\$3,656,000 was incurred for audit service and HK\$507,000 for non-audit services, including internal control review services and tax and consulting 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 19 of the annual report.

CORPORATE GOVERNANCE REPORT

DIRECTORS' RESPONSIBILITIES FOR THE CONSOLIDATED FINANCIAL STATEMENTS

The financial statements of the Company for the year ended 31 December 2019 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 43 to 47.

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
Room 3403, 34/F, Lee Garden One,
33 Hysan Avenue, Causeway Bay, 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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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.

CORPORATE GOVERNANCE REPORT

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



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 48 to 139, which comprise the consolidated statement of financial position as at 31 December 2019, 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 2019 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 ("HKSA") 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 obligated to repay convertible bonds, bank borrowings and interest, interest on secured term loan and capital and interest element of lease liabilities totaling HK\$779,619,000 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.

INDEPENDENT AUDITOR'S REPORT

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/reversal of impairment of petroleum and natural gas properties

Refer to note 17 to the consolidated financial statements and the accounting policy note 3(j) on page 74.

The Key Audit Matter

The Group recognised significant amount of impairment of petroleum and natural gas properties in prior years. The impairment was primarily due to low crude oil and natural gas prices.

As at 31 December 2019, 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 or reversal 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.

How the matter was addressed in our audit

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;

INDEPENDENT AUDITOR'S REPORT

KEY AUDIT MATTERS *(Continued)*

Assessing impairment/reversal of impairment of petroleum and natural gas properties *(Continued)*

The Key Audit Matter	How the matter was addressed in our audit
<p>As a result of the impairment assessment exercise, impairment loss of petroleum and natural gas properties of HK\$286,043,000, was recognised through profit or loss for the year ended 31 December 2019.</p>	<ul style="list-style-type: none">• assessing the competence, capabilities, independence and objectivity of the third party reserves specialists engaged by the Group to estimate the oil and gas reserve;
<p>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.</p>	<ul style="list-style-type: none">• 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.

INDEPENDENT AUDITOR'S REPORT

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.

INDEPENDENT AUDITOR'S REPORT

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 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

26 March 2020

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 (Note) HK\$'000
Revenue	8	8,197,422	5,933,388
Other revenue	8	11,484	19,019
		8,208,906	5,952,407
Expenses			
Purchases		(7,878,319)	(5,602,190)
Royalties		(26,700)	(33,329)
Field operation expenses		(72,007)	(74,719)
Exploration and evaluation expenses		(2,337)	(3,007)
Selling and distribution expenses		(13,347)	(9,526)
Administrative expenses		(75,974)	(91,267)
Depreciation, depletion and amortisation		(145,585)	(138,436)
Other gains and losses	9	(304,891)	99,743
		(8,519,160)	(5,852,731)
(Loss)/profit from operating activities	10	(310,254)	99,676
Finance costs	13	(61,850)	(59,197)
(Loss)/profit before taxation		(372,104)	40,479
Taxation	14	(62,660)	(34,211)
(Loss)/profit for the year		(434,764)	6,268
Other comprehensive income			
<i>Item that may be reclassified subsequently to profit or loss:</i>			
Exchange differences on translation of financial statements of subsidiaries outside Hong Kong			
– Exchange differences arising during the year		41,429	(127,868)
Other comprehensive income for the year, with nil tax effect		41,429	(127,868)
Total comprehensive income for the year		(393,335)	(121,600)
(Loss)/profit for the year attributable to:			
Owners of the Company		(443,742)	(741)
Non-controlling interests	38(b)	8,978	7,009
		(434,764)	6,268

CONSOLIDATED STATEMENT OF PROFIT OR LOSS AND OTHER COMPREHENSIVE INCOME

For the year ended 31 December 2019

		2019	2018
	<i>Notes</i>	HK\$'000	(Note) HK\$'000
Total comprehensive income for the year attributable to:			
Owners of the Company		(400,306)	(122,728)
Non-controlling interests		6,971	1,128
		(393,335)	(121,600)
Loss per share attributable to the owners of the Company			
Basic and diluted, HK cents	16	(3.65)	(0.01)

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 56 to 139 form an integral part of these financial statements.

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK\$'000	2018 (Note) HK\$'000
ASSETS			
Non-current assets			
Property, plant and equipment	17	1,653,657	1,909,854
Prepaid lease payments	18	–	15,602
Investment properties	19	16,718	16,794
Exploration and evaluation assets	20	16,802	19,319
Right-of-use assets	21	24,656	–
Goodwill and intangible asset		58,149	58,149
Deferred tax assets	32	–	47,017
Other non-current assets		6,757	29,695
		1,776,739	2,096,430
Current assets			
Inventories	22	31,541	67,278
Trade receivables	23	170,711	239,188
Prepayments, deposits and other receivables	24	267,705	261,299
Derivative financial instruments		–	8,719
Cash and bank balances	25	298,688	316,768
		768,645	893,252
Total assets		2,545,384	2,989,682
EQUITY			
Capital and reserves attributable to the owners of the Company			
Share capital	26	242,911	242,911
Reserves		721,150	1,121,129
Total equity attributable to the owners of the Company		964,061	1,364,040
Non-controlling interests	38(b)	129,285	106,897
Total equity		1,093,346	1,470,937

CONSOLIDATED STATEMENT OF FINANCIAL POSITION

At 31 December 2019

	Notes	2019 HK\$'000	2018 (Note) HK\$'000
LIABILITIES			
Current liabilities			
Trade and other payables	27	302,846	489,154
Lease liabilities	28	3,077	–
Tax payables		2,227	36
Bank borrowings	29	257,025	425,659
Convertible bonds	30	467,755	–
		1,032,930	914,849
Non-current liabilities			
Convertible bonds	30	–	464,327
Decommissioning liabilities	31	129,114	128,094
Lease liabilities	28	7,323	–
Deferred tax liabilities	32	11,287	11,475
Secured term loan	33	271,384	–
		419,108	603,896
Total liabilities		1,452,038	1,518,745
Total equity and liabilities		2,545,384	2,989,682
Net current liabilities		(264,285)	(21,597)
Total assets less current liabilities		1,512,454	2,074,833

Approved and authorised for issue by the board of directors on 26 March 2020.

Mr. Li Yi
Chairman

Mr. Leung Ting Yuk
Director

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 56 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

	Attributable to the owners of the Company											
	Share capital HK\$'000	Share premium HK\$'000 (note i)	Contribution surplus HK\$'000 (note ii)	Exchange reserve HK\$'000	Reserves					Sub-total HK\$'000	Non-controlling interests HK\$'000	Total HK\$'000
					Share options reserve HK\$'000 (note iii)	Statutory reserve HK\$'000 (note iv)	Convertible bonds reserve HK\$'000 (note v)	Other reserve HK\$'000	Accumulated losses HK\$'000 (note vi)			
At 1 January 2018	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
(Loss)/profit for the year	-	-	-	-	-	-	-	-	(741)	(741)	7,009	6,268
Other comprehensive income for the year												
Item 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	-	-	-	(121,987)	-	-	-	-	-	(121,987)	(5,881)	(127,868)
Total comprehensive income for the year	-	-	-	(121,987)	-	-	-	-	(741)	(122,728)	1,128	(121,600)
Recognition of equity component in convertible bonds (note 30)	-	-	-	-	-	-	6,980	-	-	6,980	-	6,980
Recognition of share based payment expenses	-	-	-	-	1,805	-	-	-	-	1,805	-	1,805
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(10,894)	(10,894)
Transfer of reserves	-	-	-	-	-	-	(16,373)	651	15,722	-	-	-
At 31 December 2018 and 1 January 2019	242,911	1,763,060	6,400,652	(387,881)	5,507	21,899	6,980	5,927	(6,695,015)	1,121,129	106,897	1,470,937
(Loss)/profit for the year	-	-	-	-	-	-	-	-	(443,742)	(443,742)	8,978	(434,764)
Other comprehensive income for the year												
Item 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	-	-	-	43,436	-	-	-	-	-	43,436	(2,007)	41,429
Total comprehensive income for the year	-	-	-	43,436	-	-	-	-	(443,742)	(400,306)	6,971	(393,335)
Capitalisation of other non-current asset	-	-	-	-	-	-	-	-	-	-	22,091	22,091
Capital injection from a non-controlling interest	-	-	-	-	-	-	-	-	-	-	5	5
Recognition of share based payments expenses	-	-	-	-	327	-	-	-	-	327	-	327
Dividend paid to non-controlling interests	-	-	-	-	-	-	-	-	-	-	(6,679)	(6,679)
Lapse of share options	-	-	-	-	(5,834)	-	-	-	5,834	-	-	-
Transfer of reserves	-	-	-	-	-	-	-	742	(742)	-	-	-
At 31 December 2019	242,911	1,763,060	6,400,652	(344,445)	-	21,899	6,980	6,669	(7,133,665)	721,150	129,285	1,093,346

CONSOLIDATED STATEMENT OF CHANGES IN EQUITY

For the year ended 31 December 2019

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 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(p).

All the share options granted to Director under the share options scheme as described in note 26 were being lapsed or forfeited during the year ended 31 December 2019 and the corresponding share options reserve amounting to approximately HK\$5,834,000 had been transferred directly to accumulated loss.

- (iv) 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.
- (v) The convertible bonds reserve represents the equity component (conversion rights) of convertible bonds issued by the Company. If the convertible bonds are not converted by the convertible bondholder or redeemed by the Company at the maturity date, the convertible bonds reserve will be reclassified to accumulated losses.
- (vi) The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 56 to 139 form part of these financial statements.

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

	Notes	2019 HK\$'000	2018 (Note) HK\$'000
(Loss)/profit before taxation		(372,104)	40,479
Adjustments for:			
Interest income	8	(2,945)	(3,172)
Depreciation and depletion of property, plant and equipment	17	143,118	137,979
Depreciation of right-of-use assets	21	2,467	–
Amortisation of prepaid lease payments	18	–	457
Fair value change on investment properties	19	(1,100)	(738)
Gain on disposal of property, plant and equipment and exploration and evaluation assets	9	(76)	(1,821)
Disposals and written off of expired exploration and evaluation assets	9	6,311	10,516
Recognition/(reversal) of impairment loss of property, plant and equipment	17	286,043	(104,490)
Share-based payment expenses	10	327	1,805
Net exchange loss/(gain)		77	(4,461)
Unrealised fair value change on derivative financial instruments		8,977	(8,840)
Finance costs	13	61,850	59,197
Operating cash flows before movements in working capital		132,945	126,911
Decrease/(increase) in trade receivables		64,447	(118,050)
Decrease/(increase) in inventories		34,354	(15,738)
Decrease in prepayments, deposits and other receivables		16,787	75,945
(Decrease)/increase in trade and other payables		(179,331)	64,487
Decrease in decommissioning liabilities		(5,765)	(4,077)
Cash generated from operations		63,437	129,478
Interest received	8	2,945	3,172
Tax paid		(12,000)	(12,920)
Net cash generated from operating activities		54,382	119,730
Cash flows from investing activities			
Proceeds from acquisition of a subsidiary		17,227	–
Purchases of exploration and evaluation assets	20	(3,942)	(3,007)
Purchases of property, plant and equipment		(114,983)	(154,965)
Payment for other non-current assets		–	(29,637)
Proceeds from disposal of property, plant and equipment		75	58
Net cash used in investing activities		(101,623)	(187,551)

CONSOLIDATED STATEMENT OF CASH FLOWS

For the year ended 31 December 2019

		2019	2018
	<i>Notes</i>	HK\$'000	(Note) HK\$'000
Cash flows from financing activities			
Proceeds from convertible bonds	25(b)	–	471,000
Proceeds from new bank borrowings and secured term loan	25(b)	1,094,100	1,081,157
Interest paid	25(b)	(54,933)	(53,273)
Repayment of bank borrowings	25(b)	(999,331)	(930,074)
Repayment of convertible bonds	25(b)	–	(383,897)
Dividend paid to non-controlling interests		(6,679)	–
Capital element of lease rentals paid	25(b)	(1,464)	–
Interest element of lease rentals paid	25(b)	(381)	–
Proceeds from cash allowance granted by a lessor		504	–
Capital injection by a non-controlling shareholder of a subsidiary		5	–
		31,821	184,913
Net cash generated from financing activities			
		(15,420)	117,092
Net (decrease)/increase in cash and cash equivalents			
Cash and cash equivalents at the beginning of the year			
		316,768	207,998
Effect of exchange rate changes		(2,660)	(8,322)
Cash and cash equivalents at the end of the year			
	25(a)	298,688	316,768

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The notes on pages 56 to 139 form an integral part of these financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 HKICPA has issued a new HKFRS, HKFRS 16, *Leases*, and a number of amendments to HKFRSs that are first effective for the current accounting period of the Group.

Except for HKFRS 16, *Leases*, none of the developments have had a material effect on how the Group’s results and financial position for the current or prior periods have been prepared or presented. The Group has not applied any new standard or interpretation that is not yet effective for the current accounting period.

HKFRS 16, *Leases*

HKFRS 16 replaces HKAS 17, *Leases*, and the related interpretations, HK(IFRIC) 4, *Determining whether an arrangement contains a lease*, HK(SIC) 15, *Operating leases – incentives*, and HK(SIC) 27, *Evaluating the substance of transactions involving the legal form of a lease*. It introduces a single accounting model for lessees, which requires a lessee to recognise a right-of-use asset and a lease liability for all leases, except for leases that have a lease term of 12 months or less (“short-term leases”) and leases of low-value assets. The lessor accounting requirements are brought forward from HKAS 17 substantially unchanged.

The Group has initially applied HKFRS 16 as from 1 January 2019. The Group has elected to use the modified retrospective approach and has therefore recognised the cumulative effect of initial application as an adjustment to the opening balance of equity at 1 January 2019. The comparative information has not been restated and continues to be reported under HKAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, *Leases* (Continued)

Further details of the nature and effect of the changes to previous accounting policies and the transition options applied are set out below:

(a) New definition of a lease

The change in the definition of a lease mainly relates to the concept of control. HKFRS 16 defines a lease on the basis of whether a customer controls the use of an identified asset for a period of time, which may be determined by a defined amount of use. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

The Group applies the new definition of a lease in HKFRS 16 only to contracts that were entered into or changed on or after 1 January 2019. For contracts entered into before 1 January 2019, the Group has used the transitional practical expedient to grandfather the previous assessment of which existing arrangements are or contain leases.

Accordingly, contracts that were previously assessed as leases under HKAS 17 continue to be accounted for as leases under HKFRS 16 and contracts previously assessed as non-lease service arrangements continue to be accounted for as executory contracts.

(b) Lessee accounting and transitional impact

HKFRS 16 eliminates the requirement for a lessee to classify leases as either operating leases or finance leases, as was previously required by HKAS 17. Instead, the Group is required to capitalise all leases when it is the lessee, including leases previously classified as operating leases under HKAS 17, other than those short-term leases and leases of low-value assets. As far as the Group is concerned, these newly capitalised leases are primarily in relation to right-of-use assets as disclosed in note 21.

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. For the Group, low-value assets are primarily laptops, office furniture and staff quarters. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, *Leases* (Continued)

(b) Lessee accounting and transitional impact (Continued)

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received.

The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses.

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group’s estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero.

At the date of transition to HKFRS 16 (i.e. 1 January 2019), the Group determined the length of the remaining lease terms and measured the lease liabilities for the leases previously classified as operating leases at the present value of the remaining lease payments, discounted using the relevant incremental borrowing rates at 1 January 2019. The weighted average of the incremental borrowing rates used for determination of the present value of the remaining lease payments was 4.35%.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, *Leases* (Continued)

(b) Lessee accounting and transitional impact (Continued)

To ease the transition to HKFRS 16, the Group applied the following recognition exemption and practical expedients at the date of initial application of HKFRS 16:

- (i) the Group elected not to apply the requirements of HKFRS 16 in respect of the recognition of lease liabilities and right-of-use assets to leases for which the remaining lease term ends within 12 months from the date of initial application of HKFRS 16, i.e. where the lease term ends on or before 31 December 2019;
- (ii) when measuring the lease liabilities at the date of initial application of HKFRS 16, the Group applied a single discount rate to a portfolio of leases with reasonably similar characteristics (such as leases with a similar remaining lease term for a similar class of underlying asset in a similar economic environment); and
- (iii) when measuring the right-of-use assets at the date of initial application of HKFRS 16, the Group relied on the previous assessment for onerous contract provisions as at 31 December 2018 as an alternative to performing an impairment review.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, Leases (Continued)

(b) Lessee accounting and transitional impact (Continued)

The following table reconciles the operating lease commitments as disclosed in note 32 of Annual Report 2018 as at 31 December 2018 to the opening balance for lease liabilities recognised as at 1 January 2019:

	1 January 2019
	HK\$'000
Operating lease commitments at 31 December 2018	21,346
Less: commitments relating to lease exempt from capitalisation: – short-term leases and other leases with remaining lease term ending on or before 31 December 2019	(3,309)
	18,037
Less: lease contracts signed but not yet commenced	(17,329)
	708
Present value of remaining lease payments, discounted using the incremental borrowing rate at 1 January 2019	708
Total lease liabilities recognised at 1 January 2019	708

The right-of-use assets in relation to leases previously classified as operating leases have been recognised at an amount equal to the amount recognised for the remaining lease liabilities, adjusted by the amount of any prepaid or accrued lease payments relating to that lease recognised in the consolidated statement of financial position at 31 December 2018.

So far as the impact of the adoption of HKFRS 16 on leases previously classified as finance leases is concerned, the Group is not required to make any adjustments at the date of initial application of HKFRS 16, other than changing the captions for the balances. Accordingly, instead of “obligations under finance leases”, these amounts are included within “lease liabilities”, and the depreciated carrying amount of the corresponding leased asset is identified as a right-of-use asset. There is no impact on the opening balance of equity.

The Group presents right-of-use assets that do not meet the definition of investment property in ‘right-of-use assets’ and presents lease liabilities separately in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, Leases (Continued)

(b) Lessee accounting and transitional impact (Continued)

The following table summarises the impacts of the adoption of HKFRS 16 on the Group’s consolidated statement of financial position:

	Carrying amount at 31 December 2018 HK\$'000	Capitalisation of operating lease contracts HK\$'000	Carrying amount at 1 January 2019 HK\$'000
Line items in the consolidated statement of financial position impacted by the adoption of HKFRS 16:			
Right-of-use assets	–	16,769	16,769
Prepaid lease payments (non-current)	15,602	(15,602)	–
Total non-current assets	2,096,430	1,167	2,097,597
Prepaid lease payments (current)	459	(459)	–
Current assets	893,252	(459)	892,793
Lease liabilities (current)	–	346	346
Current liabilities	914,849	346	915,195
Net current liabilities	(21,597)	(805)	(22,402)
Total assets less current liabilities	2,074,833	362	2,075,195
Lease liabilities (non-current)	–	362	362
Total non-current liabilities	603,896	362	604,258
Net assets	1,470,937	–	1,470,937

The analysis of the net book value of the Group’s right-of-use assets by class of underlying asset at the end of the reporting period and the date of transition to HKFRS 16 is as follows:

	At 31 December 2019 HK\$'000	At 1 January 2019 HK\$'000
Included in “Right-of-use assets”:		
Leasehold land leased for own use, carried at depreciated cost	15,312	16,061
Other properties leased for own use, carried at depreciated cost	9,344	708

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, *Leases* (Continued)

(c) Impact on the financial result, segment results and cash flows of the Group

After the initial recognition of right-of-use assets and lease liabilities as at 1 January 2019, the Group as a lessee is required to recognise interest expense accrued on the outstanding balance of the lease liability, and the depreciation of the right-of-use asset, instead of the previous policy of recognising rental expenses incurred under operating leases on a straight-line basis over the lease term. This results in a negative impact on the reported loss from operations in the Group’s consolidated statement of profit or loss, as compared to the results if HKAS 17 had been applied during the year.

In the cash flow statement, the Group as a lessee is required to split rentals paid under capitalised leases into their capital element and interest element (see note 25(b)). These elements are classified as financing cash outflows, similar to how leases previously classified as finance leases under HKAS 17 were treated, rather than as operating cash outflows, as was the case for operating leases under HKAS 17. Although total cash flows are unaffected, the adoption of HKFRS 16 therefore results in a significant change in presentation of cash flows within the cash flow statement (see note 25(c)).

The following tables give an indication of the estimated impact of the adoption of HKFRS 16 on the Group’s financial result, segment results and cash flows for the year ended 31 December 2019, by adjusting the amounts reported under HKFRS 16 in these consolidated financial statements to compute estimates of the hypothetical amounts that would have been recognised under HKAS 17 if this superseded standard had continued to apply in 2019 instead of HKFRS 16, and by comparing these hypothetical amounts for 2019 with the actual 2018 corresponding amounts which were prepared under HKAS 17.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, *Leases* (Continued)

(c) Impact on the financial result, segment results and cash flows of the Group (Continued)

	2019				2018
	Amounts reported under HKFRS 16 (A) HK\$'000	Add back: HKFRS 16 depreciation and interest expense (B) HK\$'000	Deduct: Estimated amounts related to operating leases as if under HKAS 17 (note 1) (C) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (D=A+B+C) HK\$'000	
Financial result for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					Compared to amounts reported for 2018 under HKAS 17 HK\$'000
(Loss)/profit from operations	(310,254)	2,467	(2,360)	(310,147)	99,676
Financial costs	(61,850)	381	–	(61,469)	(59,197)
(Loss)/profit before taxation	(372,104)	2,848	(2,360)	(371,616)	40,479
(Loss)/profit for the year	(434,764)	2,848	(2,360)	(434,276)	6,268
Reportable segment (loss)/profit for the year ended 31 December 2019 (note 7) impacted by the adoption of HKFRS 16:					
– Exploration, exploitation and operation	(52,173)	183	(61)	(52,051)	(605)
– Supply and procurement	42,370	794	(364)	42,800	20,237
– Total	(9,803)	977	(425)	(9,251)	19,632
					2018
	Amounts reported under HKFRS 16 (A) HK\$'000	Estimated amounts related to operating leases as if under HKAS 17 (notes 1 & 2) (B) HK\$'000	Hypothetical amounts for 2019 as if under HKAS 17 (C=A+B) HK\$'000	Compared to amounts reported for 2018 under HKAS 17 HK\$'000	
Line items in the consolidated cash flow statement for the year ended 31 December 2019 impacted by the adoption of HKFRS 16:					
Cash generated from operations	63,437	(1,845)	61,592	129,478	
Net cash generated from operating activities	54,382	(1,845)	52,537	119,730	
Capital element of lease rentals paid	(1,464)	1,464	–	–	
Interest element of lease rentals paid	(381)	381	–	–	
Net cash generated from financing activities	31,821	1,845	33,666	184,913	

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

HKFRS 16, *Leases* (Continued)

(c) Impact on the financial result, segment results and cash flows of the Group (Continued)

Note 1: The “estimated amounts related to operating leases” is an estimate of the amounts of the cash flows in 2019 that relate to leases which would have been classified as operating leases, if HKAS 17 had still applied in 2019. This estimate assumes that there were no differences between rentals and cash flows and that all of the new leases entered into in 2019 would have been classified as operating leases under HKAS 17, if HKAS 17 had still applied in 2019. Any potential net tax effect is ignored.

Note 2: In this impact table these cash outflows are reclassified from financing to operating in order to compute hypothetical amounts of net cash generated from operating activities and net cash generated from financing activities as if HKAS 17 still applied.

(d) Leasehold investment property

Under HKFRS 16, the Group is required to account for all leasehold properties as investment properties when these properties are held to earn rental income and/or for capital appreciation (“leasehold investment properties”). The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements as the Group previously elected to apply HKAS 40, *Investment properties*, to account for all of its leasehold properties that were held for investment purposes as at 31 December 2018. Consequentially, these leasehold investment properties continue to be carried at fair value.

(e) Lessor accounting

The accounting policies applicable to the Group as a lessor remain substantially unchanged from those under HKAS 17.

The adoption of HKFRS 16 does not have a significant impact on the Group’s financial statements.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 on The Stock Exchange of Hong Kong Limited (the "Listing Rules"). 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 2019 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 (see note 3(h))
- Derivative financial instruments (see note 3(r))

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.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

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

The Group incurred a loss of HK\$434,764,000, including recognition of an impairment loss of HK\$286,043,000 in respect of petroleum and natural gas properties, for the year ended 31 December 2019. In addition, as disclosed in note 5(b), the Group is obligated to incur non-operating cash outflows of HK\$779,619,000 within one year, being (i) payment of related principal and interest of convertible bonds totalling HK\$496,705,000; (ii) repayment of bank borrowings and payment of related interest totalling HK\$266,322,000; (iii) payment of related interest of secured term loan totalling HK\$13,026,000 and (iv) payment of capital element and interest element of lease liabilities totalling HK\$3,566,000. 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 2019, the Group only had cash and cash equivalents of HK\$298,688,000.

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.

Assuming the success of the following measures, 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:

- (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 including but not limited to banks, shareholders and other potential investors; 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 combination

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

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

- (i) deferred tax assets or liabilities, and 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 acquiree are measured in accordance with HKFRS 2 *Share-based Payment* at the acquisition date (see the accounting policy below); and
- (iii) assets (or disposal groups) that are classified as held for sale in accordance with HKFRS 5 *Non-current Assets Held for Sale and Discontinued Operations* are measured in accordance with that standard.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(d) Business combination *(Continued)*

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

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

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

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 CGUs) that is expected to benefit from the synergies of the combination, which represent the lowest level at which the goodwill is monitored for internal management purposes and not larger than an operating segment.

A CGU (or groups of CGUs) to which goodwill has been allocated is tested for impairment annually or more frequently when there is indication that the unit may be impaired. For goodwill arising on an acquisition in a reporting period, the CGU (or groups 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 groups 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.

(f) Revenue and other income

Income is classified by the Group as revenue when it arises from the sale of goods, the provision of services or the use by others of the Group's assets under leases in the ordinary course of the Group's business.

Revenue is recognised when control over a product or service is transferred to the customer, or the lessee has the right to use the asset, at the amount of promised consideration to which the Group is expected to be entitled, excluding those amounts collected on behalf of third parties. Revenue excludes value added tax or other sales taxes and is after deduction of any trade discounts.

Where the contract contains a financing component which provides a significant financing benefit to the customer for more than 12 months, revenue is measured at the present value of the amount receivable discounted using the discount rate that would be reflected in a separate financing transaction with the customer and interest income is accrued separately under the effective interest method. Where the contract contains a financing component which provides a significant financing benefit to the Group revenue recognised under that contract includes the interest expense accreted on the contract liability under the effective interest method. The Group takes advantage of the practical expedient in paragraph 63 of HKFRS 15 and does not adjust the consideration for any effects of a significant financing component if the period of financing is 12 months or less.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(f) Revenue and other income *(Continued)*

Further details of the Group's revenue and other income recognition policies are as follows:

(i) Sales of goods

Revenue is recognised when the customer takes possession of and accepts the products. If the products are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(ii) Rendering of services

Revenue from the rendering of services is recognised in the profit or loss upon performance of the services. If the services are a partial fulfilment of a contract covering other goods and/or services, then the amount of revenue recognised is an appropriate proportion of the total transaction price under the contract, allocated between all the goods and services promised under the contract on a relative stand-alone selling price basis.

(iii) Dividends

Dividend income from unlisted investments is recognised when the shareholder's right to receive payment is established.

Dividend income from listed investments is recognised when the share price of the investment goes ex-dividend.

(iv) Interest income

Interest income is recognised as it accrues using the effective interest method. For financial assets measured at amortised cost or FVOCI (recycling) that are not credit-impaired, the effective interest rate is applied to the gross carrying amount of the asset. For credit-impaired financial assets, the effective interest rate is applied to the amortised cost i.e. gross carrying amount net of loss allowance) of the asset.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment and right-of-use assets

Property, plant and equipment and right-of-use assets are stated in the consolidated statement of financial position at cost less subsequent accumulated depreciation and subsequent impairment losses, including the following items:

- interests in leasehold land and buildings where the Group is the registered owner of the property interest;
- right-of-use assets arising from leases over freehold or leasehold properties where the Group is not the registered owner of the property interest (see note 3(m)); and
- items of property, plant and equipment, including right-of-use assets arising from leases of underlying plant and equipment.

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
Leasehold land	: over the unexpired term of 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(g) Property, plant and equipment and right-of-use assets *(Continued)*

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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 groups 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.

(l) Contract liabilities

A contract liability is recognised when the customer pays refundable consideration before the Group recognises the related revenue (see note 27). A contract liability would also be recognised if the Group has an unconditional right to receive refundable consideration before the Group recognised the related revenue. In such cases, a corresponding receivable would also be recognised.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Leased assets

At inception of a contract, the Group assesses whether the contract is, or contains, a lease. A contract is, or contains, a lease if the contract conveys the right to control the use of an identified asset for a period of time in exchange for consideration. Control is conveyed where the customer has both the right to direct the use of the identified asset and to obtain substantially all of the economic benefits from that use.

(i) As a lessee

(A) Policy applicable from 1 January 2019

Where the contract contains lease component(s) and non-lease component(s), the Group has elected not to separate non-lease components and accounts for each lease component and any associated non-lease components as a single lease component for all leases.

At the lease commencement date, the Group recognises a right-of-use asset and a lease liability, except for short-term leases that have a lease term of 12 months or less and leases of low-value assets which, for the Group are primarily laptops, office furniture and staff quarters. When the Group enters into a lease in respect of a low-value asset, the Group decides whether to capitalise the lease on a lease-by-lease basis. The lease payments associated with those leases which are not capitalised are recognised as an expense on a systematic basis over the lease term.

Where the lease is capitalised, the lease liability is initially recognised at the present value of the lease payments payable over the lease term, discounted using the interest rate implicit in the lease or, if that rate cannot be readily determined, using a relevant incremental borrowing rate. After initial recognition, the lease liability is measured at amortised cost and interest expense is calculated using the effective interest method. Variable lease payments that do not depend on an index or rate are not included in the measurement of the lease liability and hence are charged to profit or loss in the accounting period in which they are incurred.

The right-of-use asset recognised when a lease is capitalised is initially measured at cost, which comprises the initial amount of the lease liability plus any lease payments made at or before the commencement date, and any initial direct costs incurred. Where applicable, the cost of the right-of-use assets also includes an estimate of costs to dismantle and remove the underlying asset or to restore the underlying asset or the site on which it is located, discounted to their present value, less any lease incentives received. The right-of-use asset is subsequently stated at cost less accumulated depreciation and impairment losses (see notes 3(g) and 3(j)).

The lease liability is remeasured when there is a change in future lease payments arising from a change in an index or rate, or there is a change in the Group's estimate of the amount expected to be payable under a residual value guarantee, or there is a change arising from the reassessment of whether the Group will be reasonably certain to exercise a purchase, extension or termination option. When the lease liability is remeasured in this way, a corresponding adjustment is made to the carrying amount of the right-of-use asset, or is recorded in profit or loss if the carrying amount of the right-of-use asset has been reduced to zero. The Group presents right-of-use assets and lease liabilities separately in the statement of financial position.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(m) Leased assets *(Continued)*

(i) As a lessee *(Continued)*

(B) Policy applicable prior to 1 January 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(n) Foreign currencies

(i) Functional and presentation currencies

Items included in the financial statements of each of the Group's companies are measured using the currency of the primary economic environment in which the entity operates (the "functional currency"). The Company's functional currency is US dollars ("US\$"). The consolidated financial statements are presented in Hong Kong dollars for the convenience of the shareholders, as the Company is listed in Hong Kong.

(ii) Foreign currencies translation

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

Exchange differences arising on the settlement of monetary items, and on the translation of monetary items, are recognised in profit or loss in the period in which they arise, except for exchange differences on monetary items receivable from or payable to a foreign operation for which settlement is neither planned nor likely to occur (therefore forming part of the net investment in the foreign operation), which are recognised initially in other comprehensive income and reclassified from equity to profit or loss on disposal or partial disposal of the Group's interests.

For the purposes of presenting the consolidated financial statements, the assets and liabilities of the Group's foreign operations are translated into the presentation currency of the Group (i.e. Hong Kong dollars) using exchange rates prevailing at the end of the reporting period. Income and expense items are translated at the average exchange rates for the period, unless exchange rates fluctuate significantly during the period, in which case, the exchange rates prevailing at the dates of transactions are used. Exchange differences arising, if any, are recognised in other comprehensive income and accumulated in equity under the heading of exchange reserve (attributed to non-controlling interests as appropriate).

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(o) 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 retired 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.

(p) Share-based payment arrangements

Equity-settled share-based payment transactions

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

The fair value determined at the grant date of the equity-settled share-based payments is expensed on a straight-line basis over the vesting period, based on the Group's estimate of equity instruments that will eventually vest, with a corresponding increase in share options reserve. At the end of the reporting period, the Group revises its estimates of the number of options that are expected to ultimately vest. The impact of the revision of the original estimates, if any, is recognised in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share options reserve. For share options that vest immediately at the date of grant, the fair value of the share options granted is expensed immediately to profit or loss.

When share options are exercised, the amount previously recognised in share options reserve will be transferred to share 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation

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

The tax currently payable is based on taxable profit for the year. Taxable profit/(loss) differs from profit/(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(q) Taxation *(Continued)*

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

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

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

(r) Financial instruments

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Financial assets

Financial assets are classified into financial assets at amortised cost. 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.

Accounts receivable

A receivable is recognised when the Group has an unconditional right to receive consideration. A right to receive consideration is unconditional if only the passage of time is required before payment of that consideration is due. If revenue has been recognised before the Group has an unconditional right to receive consideration, the amount is presented as a contract asset.

Receivables are stated at amortised cost using the effective interest method less allowance for credit losses.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Credit losses from financial instruments

The Group recognises a loss allowance for expected credit losses (“ECL”) on financial assets measured at amortised cost (including cash and cash equivalents and trade and other receivables). Financial assets measured at fair value, including equity securities designated at FVOCI (non-recycling) are not subject to the ECL assessment.

Measurement of ECLs

ECLs are a probability-weighted estimate of credit losses. Credit losses are measured as the present value of all expected cash shortfalls (i.e. the difference between the cash flows due to the Group in accordance with the contract and the cash flows that the Group expects to receive).

For undrawn loan commitments, expected cash shortfalls are measured as the difference between (i) the contractual cash flows that would be due to the Group if the holder of the loan commitment draws down on the loan and (ii) the cash flows that the Group expects to receive if the loan is drawn down.

The expected cash shortfalls are discounted using the following discount rates where the effect of discounting is material:

- fixed-rate financial assets, accounts and other receivables: effective interest rate determined at initial recognition or an approximation thereof; and
- variable-rate financial assets: current effective interest rate.

The maximum period considered when estimating ECLs is the maximum contractual period over which the Group is exposed to credit risk.

In measuring ECLs, the Group takes into account reasonable and supportable information that is available without undue cost or effort. This includes information about past events, current conditions and forecasts of future economic conditions.

ECLs are measured on either of the following bases:

- 12-month ECLs: these are losses that are expected to result from possible default events within the 12 months after the reporting date; and
- lifetime ECLs: these are losses that are expected to result from all possible default events over the expected lives of the items to which the ECL model applies.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Credit losses from financial instruments *(Continued)*

Measurement of ECLs *(Continued)*

Loss allowances for trade and other receivables are always measured at an amount equal to lifetime ECLs. ECLs on these financial assets are estimated using a provision matrix based on the Group's historical credit loss experience, adjusted for factors that are specific to the debtors and an assessment of both the current and forecast general economic conditions at the reporting date.

For all other financial instruments, the Group recognises a loss allowance equal to 12-month ECLs unless there has been a significant increase in credit risk of the financial instrument since initial recognition, in which case the loss allowance is measured at an amount equal to lifetime ECLs.

Significant increases in credit risk

In assessing whether the credit risk of a financial instrument has increased significantly since initial recognition, the Group compares the risk of default occurring on the financial instrument assessed at the reporting date with that assessed at the date of initial recognition. In making this reassessment, the Group considers that a default event occurs when (i) the borrower is unlikely to pay its credit obligations to the Group in full, without recourse by the Group to actions such as realising security (if any is held) or (ii) the financial asset is 90 days past due. The Group considers both quantitative and qualitative information that is reasonable and supportable including historical experience and forward-looking information that is available without undue cost or effort.

In particular, the following information is taken into account when assessing whether credit risk has increased significantly since initial recognition:

- failure to make payments of principal or interest on their contractually due dates;
- an actual or expected significant deterioration in a financial instrument's external or internal credit rating (if available);
- an actual or expected significant deterioration in the operating results of the debtor; and
- existing or forecast changes in the technological, market, economic or legal environment that have a significant adverse effect on the debtor's ability to meet its obligation to the Group.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Credit losses from financial instruments *(Continued)*

Significant increases in credit risk (Continued)

Depending on the nature of the financial instruments, the assessment of a significant increase in credit risk is performed on either an individual basis or a collective basis. When the assessment is performed on a collective basis, the financial instruments are grouped based on shared credit risk characteristics, such as past due status and credit risk ratings.

ECLs are re-measured at each reporting date to reflect changes in the financial instrument's credit risk since initial recognition. Any change in the ECL amount is recognised as an impairment gain or loss in profit or loss. The Group recognises an impairment gain or loss for all financial instruments with a corresponding adjustment to their carrying amount through a loss allowance account, except for investments in debt securities that are measured at FVOCI (recycling), for which the loss allowance is recognised in other comprehensive income and accumulated in the fair value reserve (recycling).

Basis of calculation of interest income

Interest income recognised in accordance with note 3(f)(iv) is calculated based on the gross carrying amount of the financial asset unless the financial asset is credit-impaired in which case interest income is calculated based on the amortised cost (i.e. the gross carrying amount less loss allowance) of the financial asset.

At each reporting date, the Group assesses whether a financial asset is credit-impaired. A financial asset is credit-impaired when one or more events that have a detrimental impact on the estimated future cash flows of the financial asset have occurred.

Evidence that a financial asset is credit-impaired includes the following observable events:

- significant financial difficulties of the debtor;
- a breach of contract, such as a default or delinquency in interest or principal payments;
- it becoming probable that the borrower will enter into bankruptcy or other financial reorganisation;
- significant changes in the technological, market, economic or legal environment that have an adverse effect on the debtor; or
- the disappearance of an active market for a security because of financial difficulties of the issuer.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Credit losses from financial instruments *(Continued)*

Write-off policy

The gross carrying amount of a financial asset is written off (either partially or in full) to the extent that there is no realistic prospect of recovery. This is generally the case when the Group determines that the debtor does not have assets or sources of income that could generate sufficient cash flows to repay the amounts subject to the write-off.

Subsequent recoveries of an asset that was previously written off are recognised as a reversal of impairment in profit or loss in the period in which the recovery occurs.

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 loss.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(r) Financial instruments *(Continued)*

Derivative financial instruments

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

Derecognition

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

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

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 comprise 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.

(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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

3. SIGNIFICANT ACCOUNTING POLICIES *(Continued)*

(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.
- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019 and 31 December 2018, 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;
- (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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 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 groups 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.

(f) Determine the lease term

As explained in the above accounting policies, the lease liability is initially recognised at the present value of the lease payments payable over the lease term. In determining the lease term at the commencement date for leases that include renewal options exercisable by the Group, the Group evaluates the likelihood of exercising the renewal options taking into account all relevant facts and circumstances that create an economic incentive for the Group to exercise the option, including favourable terms, leasehold improvements undertaken and the importance of that underlying asset to the Group's operation. The lease term is reassessed when there is a significant event or significant change in circumstance that is within the Group's control. Any increase or decrease in the lease term would affect the amount of lease liabilities and right-of-use assets recognised in future years.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS

(a) Categories of financial instruments

The Group

	2019 HK\$'000	2018 HK\$'000
Financial assets		
At amortised costs (including cash and bank balances)		
– Trade receivables (note 23)	170,711	239,188
– Other receivables (note 24)	5,819	5,083
– Cash and bank balances (note 25)	298,688	316,768
	475,218	561,039
At fair value through profit or loss		
– Derivative financial instruments	–	8,719
	475,218	569,758
Financial liabilities		
At amortised costs		
– Trade and other payables (note 27)	251,986	355,561
– Lease liabilities (note 28)	10,400	–
– Bank borrowings (note 29)	257,025	425,659
– Convertible bonds (note 30)	467,755	464,327
– Secured term loan (note 33)	271,384	–
	1,258,550	1,245,547

(b) Financial risk management objectives

The Group's financial instruments include trade and other receivables, cash and bank balances, trade and other payables, lease liabilities, bank borrowings, convertible bonds, secured term loan, 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 and interest rate 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 and interest rate 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

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

Market risk *(Continued)*

(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.

(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 4.9% as at 31 December 2019 (2018: 4.8%). 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 150 basis points (2018: 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 150 basis points (2018: 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\$3,855,000 (2018: pre-tax profit would decrease/increase by HK\$4,256,000). This is mainly attributable to the Group's exposure to interest rates on its bank borrowings.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

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

Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the Group.

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.

The Group's exposure to credit risk is influenced mainly by individual characteristics of each customer. At the end of the reporting period, 71% (2018: 80%) and 96% (2018: 99%) of the total trade receivables was due from the Group's largest debtor and the five largest debtors respectively.

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 loss allowance are made for irrecoverable amounts. In this regard, the Directors consider that the Group's credit risk is significantly reduced.

The Group measures loss allowances for trade receivables at an amount equal to lifetime ECLs, which is calculated using a provision matrix. As the Group's historical credit loss experience does not indicate significantly different loss patterns for different customer segments, the loss allowance based on past due status is not further distinguished between the Group's different customer bases.

The Group assessed there is no significant loss allowance recognised in accordance with HKFRS 9 as at 31 December 2019 and 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

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

Liquidity risk

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

	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 2019						
Non-derivative financial liabilities						
Trade and other payables	–	251,986	–	–	251,986	251,986
Bank borrowings	4.35	266,322	–	–	266,322	257,025
Convertible bonds	6.00	496,705	–	–	496,705	467,755
Secured term loan	4.80	13,026	297,437	–	310,463	271,384
Lease liabilities <i>(note)</i>	5.41	3,566	6,948	1,229	11,743	10,400
		1,031,605	304,385	1,229	1,337,219	1,258,550
31 December 2018						
Non-derivative financial liabilities						
Trade and other payables	–	355,561	–	–	355,561	355,561
Bank borrowings	4.43	444,529	–	–	444,529	425,659
Convertible bonds	6.00	30,892	496,705	–	527,597	464,327
		830,982	496,705	–	1,327,687	1,245,547

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities which were previously classified as operating leases under HKAS 17. Lease liabilities include amounts recognised at the date of transition to HKFRS 16 in respect of leases previously classified as operating leases under HKAS 17 and amounts relating to new leases entered into during the year. Under this approach, the comparative information is not restated. See note 2(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

5. FINANCIAL RISK MANAGEMENT AND FINANCIAL INSTRUMENTS *(Continued)*

(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).

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, tax payables, bank borrowings, convertible bonds, secured term loan, lease liabilities, 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. The gearing ratio at 31 December 2019 and 31 December 2018 were as follows:

	2019 HK\$'000	2018 HK\$'000
Total liabilities	1,452,038	1,518,745
Total equity	1,093,346	1,470,937
Gearing ratio	132.8%	103.3%

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Segment revenue:						
Sales to external customers	228,803	272,895	7,968,619	5,660,493	8,197,422	5,933,388
Segment (loss)/profit	(52,173)	(605)	42,370	20,237	(9,803)	19,632
Other revenue					11,484	19,019
Fair value change on investment properties					1,100	738
Net foreign exchange gain/(loss)					1,333	(4,404)
(Recognition)/reversal of impairment loss of property, plant and equipment					(286,043)	104,490
Unallocated corporate expenses					(28,325)	(39,799)
(Loss)/profit from operating activities					(310,254)	99,676
Finance costs					(61,850)	(59,197)
(Loss)/profit before taxation					(372,104)	40,479
Taxation					(62,660)	(34,211)
(Loss)/profit for the year					(434,764)	6,268

Revenue reported was generated from external customers. There were no inter-segment sales for the year (2018: Nil).

The accounting policies of the operating segments are the same as the Group's accounting policies described in note 3(x). Segment (loss)/profit represents the loss incurred/ profit earned by each segment without allocation of other revenue, fair value change on investment properties, net foreign exchange gain/(loss), impairment loss, reversal of impairment loss, unallocated corporate expenses, finance costs and taxation. This is the measure reported to the chief operating decision maker for the purpose of resource allocation and assessment of segment performance.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Segment assets	1,489,515	1,771,423	1,003,579	1,028,059	2,493,094	2,799,482
Unallocated assets					52,290	190,200
Total assets					2,545,384	2,989,682
Segment liabilities	435,914	423,764	515,536	591,468	951,450	1,015,232
Unallocated liabilities					500,588	503,513
Total liabilities					1,452,038	1,518,745

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. SEGMENT INFORMATION *(Continued)*

Other segment information

	Exploration, exploitation and operation		Supply and procurement		Unallocated		Consolidated	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
Other segment information:								
Depreciation of property, plant and equipment	234	350	8,210	7,509	832	34	9,276	7,893
Depreciation of right-of-use assets [#]	183	–	794	–	1,490	–	2,467	–
Depletion of property, plant and equipment	133,842	130,086	–	–	–	–	133,842	130,086
Disposals and written off of expired exploration & evaluation assets	6,311	10,516	–	–	–	–	6,311	10,516
Amortisation of prepaid lease payment	–	–	–	457	–	–	–	457
Recognition/(reversal) of impairment loss of property, plant and equipment	286,043	(104,490)	–	–	–	–	286,043	(104,490)
Additions to non-current assets*	100,527	157,561	17,471	7,421	11,578	1	129,576	164,983

[#] The Group has initially applied HKFRS16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

* The amount represents additions to property, plant and equipment, right-of-use assets and exploration and evaluation assets for the years ended 31 December 2019 and 31 December 2018.

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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

7. SEGMENT INFORMATION (Continued)

Geographical information

The Group's operations are located in Canada, the PRC 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)	
	2019 HK\$'000	2018 HK\$'000	2019 HK\$'000	2018 HK\$'000
PRC	7,968,619	5,660,493	333,843	328,683
Canada	228,803	272,895	1,426,802	1,690,949
Hong Kong and others	–	–	9,337	86
	8,197,422	5,933,388	1,769,982	2,019,718

Note: Non-current assets excluded deferred tax assets and other non-current assets.

Information about major customers

Included in revenue arising from supply and procurement business segment of HK\$7,968,619,000 (2018: HK\$5,660,493,000) are revenue of HK\$2,209,277,000 (2018: HK\$1,468,488,000) which arose from two (2018: two) 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:

	2019 HK\$'000	2018 HK\$'000
Customer A	1,283,351	662,629
Customer B (note 1)	925,926	490,782
Customer C (note 2)	778,206	805,859

Notes:

1. The corresponding revenues from Customer B did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2018.
2. The corresponding revenues from Customer C did not contribute over 10% of the total revenue of the Group during the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

8. REVENUE AND OTHER REVENUE

Revenue represents the net invoiced value of goods sold which are recognised under point in time under HKFRS 15. All significant intra-group transactions have been eliminated on consolidation.

The Group considers the indicators under the transfer-of-control approach in HKFRS 15 and determines that the Group is acting as an agent in certain sales transactions of oil related products, although the Group still exposes to credit risk in these sales transactions, while the Group does not have sufficient control over the specific goods provided by the suppliers before goods transferred to customers. When the Group acts as an agent, it recognises revenue on a net basis to which it expects to be entitled in exchange for arranging for the specified goods to be provided by the other party.

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

	2019 HK\$'000	2018 HK\$'000
Revenue from contracts with customers within the scope of HKFRS 15		
Sales of crude oil and gas	228,803	272,895
Trading and distribution of oil related products	7,968,619	5,660,493
	8,197,422	5,933,388

The Group's revenue are mainly derived from the sales of goods to customers in the PRC and Canada and recognised under point in time.

Disaggregation of revenue from contracts with customers by geographic markets is disclosed in note 7.

	2019 HK\$'000	2018 HK\$'000
Other revenue		
Bank interest income	2,945	3,172
Rental income (note 19)	880	1,416
Storage fee income	5,777	14,363
Others	1,882	68
	11,484	19,019

Total future minimum lease payments receivable by the Group

The Group's total future minimum lease payments under non-cancellable operating leases are receivable as follows:

	2019 HK\$'000	2018 HK\$'000
Within one year	512	709
In the second to fifth years, inclusive	47	336
	559	1,045

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

9. OTHER GAINS AND LOSSES

	2019 HK\$'000	2018 HK\$'000
Net foreign exchange gain/(loss)	1,333	(4,404)
Fair value change on investment properties (note 19)	1,100	738
Gain on disposal of property, plant and equipment and exploration and evaluation assets	76	1,821
Disposals and written off of expired exploration and evaluation assets (Recognition)/reversal of impairment loss of property, plant and equipment (note 17)	(6,311)	(10,516)
Fair value change on derivative financial instruments	(286,043)	104,490
Others	(15,046)	7,672
	–	(58)
	(304,891)	99,743

10. (LOSS)/PROFIT FROM OPERATING ACTIVITIES

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

	2019 HK\$'000	2018 (note) HK\$'000
Auditors' remuneration		
– Audit services	3,656	3,474
– Non-audit services	507	1,520
Cost of inventories sold	7,878,319	5,602,190
Depreciation and depletion of property, plant and equipment (note 17)	143,118	137,979
Depreciation of right-of-use assets (note 21)	2,467	–
Amortisation of prepaid lease payments (note 18)	–	457
Expense relating to short-term leases and other leases with remaining lease term ending on or before 31 December 2019	3,134	–
Expense relating to leases of low-value assets, excluding short-term leases of low-value assets	1,817	–
Total minimum lease payments for leases previously classified as operating leases under HKAS 17	–	8,270
Staff costs (including Directors' remuneration)		
– Salaries and wages	60,658	63,540
– Share-based payment expenses	327	1,805
– Pension scheme contributions (note 34)	2,734	2,547

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. DIRECTORS' REMUNERATION

The board of Directors of the Company is currently composed of executive Directors and 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 2019

	Directors' fees HK\$'000	Salaries, other benefits and bonuses HK\$'000	Discretionary bonus HK\$'000	Pension scheme contributions HK\$'000	Equity-settled share option expenses HK\$'000 (note 26)	Total HK\$'000
Executive Directors						
Mr. Li Yi (<i>Chairman</i>)	-	250	-	-	-	250
Mr. Bruno Guy Charles Deruyck (<i>Chief executive officer</i>) (<i>resigned on 1 June 2019</i>)	-	1,458	-	-	327	1,785
Ms. Sha Chunzhi	-	250	-	-	-	250
Mr. Li Jun	-	250	-	-	-	250
Mr. Tan Meng Seng (<i>resigned on 1 March 2019</i>)	-	42	-	2	-	44
Mr. Gao Hairen (<i>appointed on 12 January 2018</i>)	-	250	-	-	-	250
Sub-total	-	2,500	-	2	327	2,829
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	2,500	-	2	327	3,341

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

11. DIRECTORS' REMUNERATION (Continued)

For the year ended 31 December 2018

	Directors' fees HK\$'000	Salaries, other benefits and bonuses HK\$'000	Discretionary bonus 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) (resigned on 1 June 2019)	–	4,000	–	–	1,805	5,805
Ms. Sha Chunzhi	–	250	–	–	–	250
Mr. Li Jun	–	250	–	–	–	250
Mr. Tan Meng Seng (resigned on 1 March 2019)	–	485	–	15	–	500
Mr. Gao Hairen (appointed on 12 January 2018)	–	242	–	–	–	242
Mr. Shen Hao (resigned on 12 January 2018)	–	7	–	–	–	7
Sub-total	–	5,488	–	15	1,805	7,308
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	5,488	–	15	1,805	7,820

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 (2018: 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 (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019 and 31 December 2018.

(b) Five highest paid individuals

The five highest paid employees of the Group during the year included one former Director who resigned on 1 June 2019 (2018: one Director), details of whose remuneration are set out in note 11 above. Details of the remuneration for the year of the remaining four (2018: four) highest paid employees who are neither a Director nor chief executive of the Company are as follows:

	2019 HK\$'000	2018 HK\$'000
Basic salaries and bonuses	8,989	7,895
Pension scheme contributions	18	18
	9,007	7,913

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	
	2019	2018
HK\$		
1,500,001–2,000,000	2	3
2,000,001–2,500,000	1	–
2,500,001–3,000,000	–	1
3,000,001–3,500,000	1	–
	4	4

No emoluments were paid by the Group to any of the five highest paid individuals as an inducement to join, or upon joining the Group, or as a compensation for loss of office (2018: Nil). No five highest paid individuals waived or agreed to waive any remuneration during the year (2018: Nil).

During the year ended 31 December 2019, no share options to subscribe for ordinary shares of the Company were granted to these individuals, under the Company's share option scheme (2018: Nil).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

13. FINANCE COSTS

	2019 HK\$'000	2018 HK\$'000
Interest expenses on bank borrowings and secured term loan wholly repayable within five years	26,683	17,967
Interest expenses on convertible bonds (note 30)	31,688	38,099
Interest expenses on lease liabilities*	381	–
Accretion expenses of decommissioning liabilities (note 31)	3,098	3,131
	61,850	59,197

* The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2(b).

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

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

	2019 HK\$'000	2018 HK\$'000
Current tax – Hong Kong Profits Tax		
Provision for the year	–	–
Current tax – Outside Hong Kong		
Provision for the year	14,194	10,220
Deferred tax		
Origination and reversal of temporary differences (note 32)	48,466	23,991
	62,660	34,211

The provision for Hong Kong Profits tax for 2019 is calculated at 16.5% (2018: 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% (2018: 27%) and 25% (2018: 25%) respectively.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

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

	2019 HK\$'000	2018 HK\$'000
(Loss)/profit before taxation	(372,104)	40,479
Notional tax on (loss)/profit before taxation, calculated at the rates applicable to (loss)/profit in the countries concerned	(86,609)	18,944
Tax effect of non-deductible expenses	83,984	15,131
Tax effect of non-taxable income	(937)	(274)
Tax effect of unused tax losses not recognised	15,700	373
Effect on deferred tax balance at beginning of the year resulting from a change in tax rate	4,128	–
Tax effect of derecognition of tax credit previously recognised	44,176	–
Withholding tax on dividends from subsidiary outside of Hong Kong	2,023	–
Others	195	37
Actual tax expense	62,660	34,211

15. DIVIDENDS

No dividend was paid or proposed for ordinary shareholders during the year ended 31 December 2019, nor has any dividend been proposed since the end of the reporting period (2018: 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:

	2019 HK\$'000	2018 HK\$'000
Loss		
Loss for the year attributable to the owners of the Company for the purpose of basic and diluted loss per share	(443,742)	(741)
	2019 '000	2018 '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 2019 and 31 December 2018 were the same as the basic loss per share. The computation of diluted loss per share for the years ended 31 December 2019 and 31 December 2018 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2018	139,612	14,010	11,727	3,026	384	3,094,620	122,977	3,386,356
Additions	6,179	167	346	882	-	154,402	-	161,976
Disposals	(323)	(301)	-	(3)	-	(19)	-	(646)
Transfer from exploration and evaluation assets (note 20)	-	-	-	-	-	2,061	-	2,061
Transfer from investment properties (note 19)	4,611	-	-	-	-	-	-	4,611
Adjustment	-	-	-	-	-	-	(1,512)	(1,512)
Exchange differences	(6,987)	(705)	(689)	(149)	(32)	(235,984)	(6,213)	(250,759)
At 31 December 2018 and 1 January 2019	143,092	13,171	11,384	3,756	352	3,015,080	115,252	3,302,087
Additions	13,236	272	1,434	539	4,219	95,283	-	114,983
Disposals	(651)	(10)	(891)	-	-	-	-	(1,552)
Transfer from exploration and evaluation assets (note 20)	-	-	-	-	-	860	-	860
Transfer from investment properties (note 19)	866	-	-	-	-	-	-	866
Exchange differences	(2,598)	(243)	83	(69)	13	116,172	(2,144)	111,214
At 31 December 2019	153,945	13,190	12,010	4,226	4,584	3,227,395	113,108	3,528,458
Accumulated depreciation, depletion and impairment								
At 1 January 2018	26,781	5,831	7,897	2,479	384	1,426,355	-	1,469,727
Charge for the year	4,687	1,757	1,220	229	-	130,086	-	137,979
Eliminated on disposals	(204)	(291)	(79)	(19)	-	-	-	(593)
Reversal of impairment loss during the year (note 9)	-	-	-	-	-	(104,490)	-	(104,490)
Exchange differences	(1,332)	(288)	(484)	(124)	(32)	(108,130)	-	(110,390)
At 31 December 2018 and 1 January 2019	29,932	7,009	8,554	2,565	352	1,343,821	-	1,392,233
Charge for the year	5,329	1,632	1,243	262	810	133,842	-	143,118
Eliminated on disposals	(81)	(10)	(886)	-	-	-	-	(977)
Impairment loss during the year (note 9)	-	-	-	-	-	286,043	-	286,043
Exchange differences	(534)	(123)	114	(48)	14	54,961	-	54,384
At 31 December 2019	34,646	8,508	9,025	2,779	1,176	1,818,667	-	1,874,801
Net book value								
At 31 December 2019	119,299	4,682	2,985	1,447	3,408	1,408,728	113,108	1,653,657
At 31 December 2018	113,160	6,162	2,830	1,191	-	1,671,259	115,252	1,909,854

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Recognition/(reversal) of 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 groups of assets. The recoverable amount of each CGU was determined on the basis of value in use calculations based on certain assumptions. Oil and natural gas prices beyond the fourth year are escalated at 2.0% per annum (2018: escalated at 2.0% per annum). All value in use calculations use pre-tax future cash flow projection based on the drilling proposals on proved and probable reserves approved by the management and discounted at rates ranging from 12% to 15% (2018: 12% to 15%). In determining the discount rates, the Group considered acquisition metrics of recent transactions completed on assets similar to those in the specific CGU's and industry peer group weighted average cost of capital. The methodology of value in use is in compliance with HKAS 36, *Impairment of Assets*.

At 31 December 2019, the Group assessed for indicators of impairment or recovery for all its CGUs of petroleum and natural gas properties. 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. The Group determined that there were indicators of impairment at 31 December 2019 at its CGUs. The main indicator of impairment was the third party reserves evaluation which included a decrease in the forward price deck resulting in a decrease in reserve and net present value across all CGUs. During the year ended 31 December 2019, the Group recognised an impairment loss on petroleum and natural gas properties of HK\$286,043,000. The recoverable amount of the petroleum and natural gas properties has been determined on the basis of their value in use.

At 31 December 2018, the Group assessed for indicators of impairment or recovery for all its CGUs. 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. The Group determined there were indicators of an impairment recovery at a CGU as at 31 December 2018 due to encouraging drilling results during the year, positive offset drilling results and the impacts of these results to future drilling potential in the CGU. In addition, as a result of the continuously low gas price of another CGU, management performed impairment assessment and recognised impairment loss for another CGU. During the year ended 31 December 2018, the Group reversed an impairment loss on petroleum and nature gas properties of HK\$104,490,000.

The aggregate recoverable amount of the Group's petroleum and natural gas properties amounted to HK\$1,413 million (2018: HK\$1,797 million).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

18. PREPAID LEASE PAYMENTS

	2019 HK\$'000	2018 HK\$'000
Net book value		
As reported in previous year	16,061	17,394
Reclassified to right-of-use assets	(16,061)	–
At the beginning of the year	–	17,394
Amortisation for the year	–	(457)
Exchange differences	–	(876)
At the end of the year	–	16,061
The Group's prepaid lease payments comprise:		
Land outside Hong Kong under medium term lease	–	16,061
Analysed for reporting purposes as:		
Current assets (include in prepayments, deposits and other receivables) (note 24)	–	459
Non-current assets	–	15,602
	–	16,061

Upfront payments for leasehold lands in the PRC were classified as prepaid lease payments as at 31 December 2018. Upon application of HKFRS 16, the current and non-current portion of prepaid lease payments amounting to HK\$459,000 and HK\$15,602,000 respectively were reclassified to right-of-use assets.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

19. INVESTMENT PROPERTIES

	HK\$'000
Fair values	
At 1 January 2018	21,760
Increase in fair values recognised in profit or loss (<i>note 9</i>)	738
Transfer to property, plant and equipment (<i>note 17</i>)	(4,611)
Exchange differences	(1,093)
	<hr/>
At 31 December 2018 and 1 January 2019	16,794
Increase in fair values recognised in profit or loss (<i>note 9</i>)	1,100
Transfer to property, plant and equipment (<i>note 17</i>)	(866)
Exchange differences	(310)
	<hr/>
At 31 December 2019	16,718

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 2019 have been arrived at on the basis of valuations carried out by Vincorn Consulting and Appraisal Limited ("Vincorn") (2018: Unicorn Consulting and Appraisal Limited ("Unicorn")), independent qualified professional valuer not related to the Group. Vincorn and Unicorn 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, or transfers into or out of Level 3 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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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		Valuation technique	Fair value hierarchy	Range of significant unobservable inputs			Sensitivity
	31 December 2019 HK\$'000	31 December 2018 HK\$'000			Monthly market unit rent	Market unit value	Capitalisation rates	
Investment properties located in the PRC	16,718	16,794	Direct sales comparison approach and income approach	Level 3	RMB11.6 to RMB36.0 per square metre (2018: RMB11.6 to RMB42.0 per square metre)	RMB1,284 to RMB9,106 per square metre (2018: RMB1,843 to RMB9,055 per square metre)	4.7% to 7.3% (2018: 5.6% to 8.7%)	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	-	-	Direct sales comparison approach	Level 2	N/A	US\$ nil per square metre (2018: N/A)	N/A	A significant increase in the market unit value used would result in a significant increase in fair value, and vice versa.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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 2019 HK\$'000
Commercial and office buildings located in the PRC	–	16,718	16,718

	Level 2 HK\$'000	Level 3 HK\$'000	Fair value as at 31 December 2018 HK\$'000
Commercial and office buildings located in the PRC	–	16,794	16,794

The following shows the details of rental income earned by the Group during the years ended 31 December 2019 and 31 December 2018:

	2019 HK\$'000	2018 HK\$'000
Gross rental income from investment properties	880	1,416
Less: Direct operating expenses incurred for investment properties that generated rental income during the year	–	–
	880	1,416

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. EXPLORATION AND EVALUATION ASSETS

	HK\$'000
Cost	
At 1 January 2018	12,445,551
Additions	3,007
Disposals and written off	(10,516)
Transfer to property, plant and equipment (<i>note 17</i>)	(2,061)
Exchange differences	(2,219)
	<hr/>
At 31 December 2018 and 1 January 2019	12,433,762
Additions	3,942
Disposals and written off	(6,311)
Transfer to property, plant and equipment (<i>note 17</i>)	(860)
Exchange differences	712
	<hr/>
At 31 December 2019	12,431,245
	<hr/>
Accumulated impairment	
At 1 January 2018, 31 December 2018, 1 January 2019 and 31 December 2019	12,414,443
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Carrying amount	
At 31 December 2019	16,802
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At 31 December 2018	19,319
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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.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

20. EXPLORATION AND EVALUATION ASSETS *(Continued)*

Impairment test – Two Exploration Blocks

For the year ended 31 December 2019

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 years ended 31 December 2019 and 31 December 2018. 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 2019

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 years ended 31 December 2019 and 31 December 2018.

21. RIGHT-OF-USE ASSETS

As discussed in note 2, the Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise right-of-use assets relating to leases which were previously classified as operating leases under HKAS 17. Further details on the net book value of the Group's right-of-use assets by class of underlying asset are set out below:

	HK\$'000
Cost	
At 31 December 2018	–
Impact on initial application of HKFRS 16 <i>(note)</i>	16,769
At 1 January 2019	16,769
Additions	10,651
Exchange differences	(353)
At 31 December 2019	27,067
Accumulated depreciation	
At 1 January 2019	–
Charge for the year	2,467
Exchange differences	(56)
At 31 December 2019	2,411
Net book value	
At 31 December 2019	24,656

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

21. RIGHT-OF-USE ASSETS (Continued)

The analysis of expense items in relation to leases in profit or loss is as follows:

	2019	2018
	HK\$'000	(note) HK\$'000
Depreciation charge of right-of-use assets by class of underlying asset:		
Ownership interests in leasehold land	449	457
Other properties leased for own use	2,018	–
	2,467	457

Note: The Group has initially applied HKFRS 16 at 1 January 2019 using the modified retrospective approach. Under this approach, the comparative information is not restated. See note 2.

The Group entered into a number of lease agreements for use of offices, and therefore recognised the additions to right-of-use assets of HK\$10,651,000. The leases of offices contain minimum annual lease payment terms that are fixed.

Details of total cash outflow for leases and the maturity analysis of lease liabilities are set out in notes 25(c) and 28 respectively.

22. INVENTORIES

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

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

23. TRADE RECEIVABLES

Trade receivables, which generally have credit terms of 90 days (2018: 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 ageing analysis of trade receivables presented based on the invoice dates at the end of the reporting period:

	2019 HK\$'000	2018 HK\$'000
0 to 30 days	168,429	236,742
31 to 60 days	135	126
61 to 90 days	40	236
Over 90 days	2,107	2,084
	170,711	239,188

The Directors believe that no loss allowance 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\$2,107,000 (2018: HK\$2,084,000) 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.

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

	2019 HK\$'000	2018 HK\$'000
Over 90 days	2,107	2,084

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

24. PREPAYMENTS, DEPOSITS AND OTHER RECEIVABLES

	2019 HK\$'000	2018 HK\$'000
Prepaid lease payments (<i>note 18</i>)	–	459
Prepayments to suppliers of refined oil products	259,030	252,082
Other prepayments	2,008	3,303
Other deposits	848	372
Other receivables	5,819	5,083
	267,705	261,299

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 2019 and 31 December 2018. The Group does not hold any collateral over these balances.

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION

Bank balances carry interest at market rates which range from 0.001% to 3.00% (2018: 0.001% to 3.00%) per annum.

Included in the cash and bank balances as at 31 December 2019 were amounts in RMB equivalent to HK\$223,213,000 (2018: HK\$146,502,000) which are not freely convertible into other currencies.

(a) Cash and cash equivalents comprise:

	2019 HK\$'000	2018 HK\$'000
Deposits with banks	298,639	316,665
Cash at bank and on hand	49	103
Cash and cash equivalents in the consolidated statement of financial position and consolidated statement of cash flows	298,688	316,768

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION (Continued)

(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 and secured term loan HK\$'000 (note 1)	Convertible bonds HK\$'000	Lease liabilities HK\$'000 (note 2)	Total HK\$'000
At 1 January 2018	295,527	376,553	–	672,080
Changes from financing cash flows:				
Proceeds from new bank borrowings/ convertible bonds	1,081,157	471,000	–	1,552,157
Repayment of bank borrowings/convertible bonds	(930,074)	(383,897)	–	(1,313,971)
Interest paid	(17,967)	(35,306)	–	(53,273)
Total changes from financing cash flows	133,116	51,797	–	184,913
Exchange adjustments	(20,951)	4,858	–	(16,093)
Other changes:				
Interest expenses	17,967	38,099	–	56,066
Recognition of equity component	–	(6,980)	–	(6,980)
At 31 December 2018	425,659	464,327	–	889,986
Impact on application of HKFRS 16	–	–	708	708
At 1 January 2019	425,659	464,327	708	890,694
Changes from financing cash flows:				
Proceeds from new bank borrowings and secured term loan	1,094,100	–	–	1,094,100
Repayment of bank borrowings	(999,331)	–	–	(999,331)
Capital element of lease rentals paid	–	–	(1,464)	(1,464)
Interest element of lease rentals paid	–	–	(381)	(381)
Other interest paid	(26,683)	(28,250)	–	(54,933)
Total changes from financing cash flows	68,086	(28,250)	(1,845)	37,991
Exchange adjustments	7,981	(10)	1	7,972
Other changes:				
Interest expenses	26,683	31,688	381	58,752
Increase in lease liabilities from entering into new leases during the year	–	–	11,155	11,155
Total other changes	26,683	31,688	11,536	69,907
At 31 December 2019	528,409	467,755	10,400	1,006,564

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

25. CASH AND CASH EQUIVALENTS AND OTHER CASH FLOW INFORMATION *(Continued)*

(b) Reconciliation of liabilities arising from financing activities *(Continued)*

Notes:

1. Bank borrowings and secured term loan consist of bank loans and secured term loan from an intermediate holding company as disclosed in notes 29 and 33 respectively.
2. The Group has initially applied HKFRS 16 using the modified retrospective method and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. See notes 2 and 28.

(c) Total cash outflow for leases

Amounts included in the cash flow statement for leases comprise the following:

	2019	2018
	HK\$'000	(note) HK\$'000
Within operating cash flows	4,951	8,270
Within financing cash flows	1,341	–
	6,292	8,270

Note: As explained in note 2(c), the adoption of HKFRS 16 introduces a change in classification of cash flows of certain rentals paid on leases. The comparative amounts have not been restated.

These amounts relate to lease rentals paid and cash allowance granted and received from a lessor.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. SHARE CAPITAL

	Number of shares		Share capital	
	2019 '000	2018 '000	2019 HK\$'000	2018 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 2019, none of shares in respect of which options had been granted and remained outstanding under the Scheme (2018: 75,000,000), representing 0% (2018: 0.6%) 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 exercised as the Directors may at their discretion determine.

The maximum number of shares available for issue under options which may be granted under the Scheme of the Company is 684,557,304 (2018: 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% (2018: 5.6%) of the total number of shares in issue as at the date of this annual report.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

26. SHARE CAPITAL (Continued)

Share options (Continued)

Share option scheme (Continued)

Details of share options are as follows:

Date of grant	Fair value for batch of share options at grant date	Vesting period	Exercise period	Exercise price	Number of share options			
					As at 1 January 2019	Granted during the period	Lapsed during the period	As at 31 December 2019
18/10/2016	HK\$1,510,000	18/10/2016 – 30/9/2017	1/10/2017 – 30/9/2026	HK\$0.2210	12,000,000	–	(12,000,000)	–
1/6/2017	HK\$940,000	1/6/2017 – 30/9/2017	1/10/2017 – 30/9/2026	HK\$0.1842	13,000,000	–	(13,000,000)	–
	HK\$1,813,000	1/6/2017 – 30/9/2018	1/10/2018 – 30/9/2026	HK\$0.1842	25,000,000	–	(25,000,000)	–
	HK\$1,832,000	1/6/2017 – 30/9/2019	1/10/2019 – 30/9/2026	HK\$0.1842	25,000,000	–	(25,000,000)	–

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

	2019		2018	
	Weighted average exercise price	Number of share options	Weighted average exercise price	Number of share options
Outstanding at the beginning of the period	HK\$0.1901	75,000,000	HK\$0.1901	75,000,000
Granted during the period	–	–	–	–
Lapsed during the period	HK\$0.1901	(75,000,000)	–	–
Outstanding at the end of the period	–	–	HK\$0.1901	75,000,000
Exercisable at the end of the period	–	–	HK\$0.1930	50,000,000

No options were outstanding as at 31 December 2019.

The options outstanding at 31 December 2018 had an exercise price of HK\$0.1930 and a weighted average remaining contractual life of 7.75 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\$1,510,000.

The Group recognised an expense of HK\$327,000 (2018: HK\$1,805,000) in relation to share options granted by the Company for the year ended 31 December 2019.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

27. TRADE AND OTHER PAYABLES

	2019 HK\$'000	2018 HK\$'000
Trade payables	150,778	202,144
Contract liabilities (<i>note</i>)	50,860	133,593
Other payables	101,208	153,417
	302,846	489,154

Note:

Contract liabilities

Contract liabilities as at 31 December 2019 and 31 December 2018 mainly represent the advance received from customers upon order placement, and were fully recognised as revenue during the year when the control over a product is transferred to customer. The Group typically receives advance on acceptance of orders. The amount of the advance, if any, was negotiated on a case by case basis with customers.

Contract liabilities of HK\$50,860,000 were recognised as at 31 December 2019 (2018: HK\$133,593,000) as a result of the receipt of payment during the year in advance of the satisfaction of performance obligation, and are expected to be fully recognised as revenue within one year.

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

	2019 HK\$'000	2018 HK\$'000
0 to 30 days	149,099	195,727
31 to 60 days	734	3,252
61 to 90 days	–	323
Over 90 days	945	2,842
	150,778	202,144

As at 31 December 2019 and 31 December 2018, the trade payables are non-interest bearing and have an average credit period on purchases of one to three months.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

28. LEASE LIABILITIES

The following table shows the remaining contractual maturities of the Group's lease liabilities at the end of the current and previous reporting periods and at the date of transition to HKFRS 16:

	31 December 2019		1 January 2019 (note)		31 December 2018 (note)	
	Present value of the lease payments HK\$'000	Total lease payments HK\$'000	Present value of the lease payments HK\$'000	Total lease payments HK\$'000	Present value of the lease payments HK\$'000	Total lease payments HK\$'000
Within 1 year	3,077	3,566	346	370	–	–
After 1 year but within 2 years	2,999	3,325	362	370	–	–
After 2 years but within 5 years	3,240	3,623	–	–	–	–
After 5 years	1,084	1,229	–	–	–	–
	7,323	8,177	362	370	–	–
	10,400	11,743	708	740	–	–
Less: total future interest expenses		(1,343)		(32)		–
Present value of lease liabilities		10,400		708		–

Note: The Group has initially applied HKFRS 16 using the modified retrospective approach and adjusted the opening balances at 1 January 2019 to recognise lease liabilities relating to leases which were previously classified as operating leases under HKAS 17. The comparative information as at 31 December 2018 has not been restated. Further details on the impact of the transition to HKFRS 16 are set out in note 2(b).

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

29. BANK BORROWINGS

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

	2019 HK\$'000	2018 HK\$'000
Carrying amount repayable within one year or on demand:		
Unsecured bank borrowings (<i>note (a)</i>)	257,025	170,790
Secured bank borrowings (<i>note (b)</i>)	–	254,869
	257,025	425,659

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

	2019	2018
Floating rate	4.35%	4.35%–5.82%

Notes:

- (a) As at 31 December 2019, Henan Yanchang Petroleum Sales Co., Limited (“Henan Yanchang”) has drawn down unsecured bank borrowings of RMB230,000,000 (equivalent to HK\$257,025,000) (2018: RMB150,000,000 (equivalent to HK\$170,790,000)). 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 2018, Novus Energy Inc. (“Novus”) has drawn down CAD44,325,000 (equivalent to HK\$254,869,000) against its CAD48,000,000 credit facilities in the form of bank acceptances.

As at 31 December 2018, 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 1.00 to 3.50% over the bank’s prime lending rate; bankers’ acceptances stamping fees ranging from 2.00% to 4.50%; letters of credit/guarantee fees ranging from 2.00% to 4.50%; and standby fees ranging from 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. As at 31 December 2018, interest on the revolving operating demand loan was charged at prime plus 1.75% per annum, bankers’ acceptances stamping fees were 2.75% per annum, letters of credit/guarantee fees were 2.75% per annum, and standby fees were 0.69% per annum.

As at 31 December 2018, 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 2018, the ratio was 1.41:1.

The effective interest rate for the bank debt was approximately 4.8% as at 31 December 2018.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

30. CONVERTIBLE BONDS

On 23 December 2015, the Company issued convertible bonds in the principal amount of US\$46,300,000. For the year ended 31 December 2018, the Company redeemed the convertible bonds in the principal amount of US\$46,300,000.

On 28 November 2018, the Company issued new convertible bonds to Yanchang Petroleum HK in the principal amount of US\$60,000,000 (the "Convertible Bonds"). The Convertible Bonds bear annual interest rate of 6% and mature on the date falling on the second anniversary of the date of issuance. The Convertible Bonds entitle the holder to convert to the ordinary shares of the Company at an initial conversion price of HK\$0.076 per share.

The initial conversion price of HK\$0.076 will be subject to adjustment upon the changes of the capital structure of the Company shares, and such changes have taken effect, the Company shall appoint an accredited professional before the conversion date, and pursuant to terms and conditions of the Convertible Bonds the accredited professional shall fairly and appropriately determine whether there is a need to adjust the conversion price to reflect the respective interests of the Company and the bondholder.

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 any time upon the occurrence of an event of default, give a written notice requesting the Company to redeem all (but not part) of the outstanding Convertible Bonds in an amount equal to the sum of the outstanding principal amount of the Convertible Bonds together with any accrued interest payable.

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.

The Convertible Bonds contain two components, liability component and equity component.

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30. CONVERTIBLE BONDS (Continued)

The liability component is carried at amortised cost using the effective interest method. The equity component is measured at the residual amount after separating the liability component of the convertible bond.

	HK\$'000
Liability component at date of issue	464,020
Equity component at date of issue	6,980
Proceeds of issue	471,000

Liability component:

	HK\$'000
Liability component at 1 January 2018	376,553
Liability component issued at 28 November 2018	464,020
Liability component redeemed	(383,897)
Interest expenses (note 13)	38,099
Interest paid (note 25(b))	(35,306)
Exchange difference	4,858
Liability component at 31 December 2018 and 1 January 2019	464,327
Interest expenses (note 13)	31,688
Interest paid (note 25(b))	(28,250)
Exchange difference	(10)
Liability component at 31 December 2019	467,755

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

31. 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:

	2019 HK\$'000	2018 HK\$'000
At the beginning of the year	128,094	139,575
Change in estimates	(4,627)	507
Liabilities incurred	3,097	3,105
Liabilities acquired	713	–
Liabilities settled	(5,765)	(5,946)
Liabilities extinguished on property dispositions	(364)	(1,744)
Accretion expenses (<i>note 13</i>)	3,098	3,131
Exchange differences	4,868	(10,534)
At the end of the year	129,114	128,094

The inflated, undiscounted amount of the future cash flows required to settle the obligations is estimated to be CAD26,900,000 (equivalent to HK\$160,593,000) (2018: CAD28,600,000 (equivalent to HK\$164,450,000)). The obligations were calculated using a risk-free interest rate of 1.76% (2018: 2.30%) and an inflation rate of 1.35% (2018: 2%). The risk-free interest rate adopted was referenced to the Bank of Canada Benchmark bond rate.

32. DEFERRED TAX ASSETS/(LIABILITIES)

	2019 HK\$'000	2018 HK\$'000
Deferred tax assets	–	47,017
Deferred tax liabilities	(11,287)	(11,475)
	(11,287)	35,542

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32. DEFERRED TAX ASSETS/(LIABILITIES) (Continued)

	Property, plant and equipment HK\$'000	Prepaid lease payments HK\$'000	Investment properties HK\$'000	Decommissioning liabilities HK\$'000	Non-capital losses HK\$'000	Others HK\$'000	Total HK\$'000
At 1 January 2018	(171,450)	(1,729)	(3,111)	37,685	244,146	(41,265)	64,276
Credited/(debited) to profit or loss during the year (note 14)	27,849	–	(184)	(256)	(51,400)	–	(23,991)
Exchange differences	12,483	87	156	(2,844)	(17,743)	3,118	(4,743)
At 31 December 2018 and 1 January 2019	(131,118)	(1,642)	(3,139)	34,585	175,003	(38,147)	35,542
(Debited)/credited to profit or loss during the year (note 14)	(49,841)	–	(59)	(1,039)	3,567	(1,094)	(48,466)
Exchange differences	9,366	30	58	(1,428)	(7,960)	1,571	1,637
At 31 December 2019	(171,593)	(1,612)	(3,140)	32,118	170,610	(37,670)	(11,287)

The Group did not have any significant unprovided deferred tax liabilities at 31 December 2019 (2018: Nil).

33. SECURED TERM LOAN

On 20 December 2019, Novus has drawn down the secured term loan of US\$35,000,000, pursuant to the loan agreement between Novus (as the borrower) and Yanchang Petroleum HK (as the lender) signed on 5 November 2019. The secured term loan denominated in US dollars bears interest rate at 4.8% per annum and repayable in three years.

The secured term loan is secured by a US\$70,000,000 debenture with the following charges: (1) first and fixed charge over all of Novus' right, title and interest, whether freehold, leasehold or other, under or in respect of the lands, in relation to the properties held by Novus from time to time; (2) a first priority security interest to and over all of Novus' present and after-acquired personal property (i.e. movable property) from time to time, tangible and intangible, in each case, of every nature and kind and wherever situate and all proceeds thereof; and (3) a floating charge over all of Novus' property to the extent not otherwise described above (excluding any agreement, right, franchise, intellectual property, license or permit). The secured term loan is subject to a financial covenant that requires Novus to maintain a working capital ratio of at least 1:1. As at 31 December 2019, this ratio was 2.56:1. As at 31 December 2019, the carrying amount of the secured term loan is HK\$271,384,000.

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

34. 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\$2,734,000 for the year ended 31 December 2019 (2018: HK\$2,547,000) represented contributions payable to the above schemes by the Group.

35. COMMITMENTS

(a) Capital commitments

The Group had capital commitments to pay property, plant and equipment amounting to HK\$1,713,000 (2018: HK\$25,362,000) which were contracted but not provided for as at 31 December 2019.

(b) At 31 December 2018, the total future minimum lease payments under non-cancellable operating leases were payable as follows:

	2018 HK\$'000
Within one year	6,375
In the second to fifth years, inclusive	14,971
	<hr/> 21,346 <hr/>

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

36. CONTINGENT LIABILITIES

As at 31 December 2019, the Group had no material contingent liabilities (2018: Nil).

37. 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

	2019 HK\$'000	2018 HK\$'000
Salaries and allowances	11,489	13,382
Share-based payment expenses	327	1,805
Pension scheme contributions	20	33
	11,836	15,220

During the year ended 31 December 2019, 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	2019 HK\$'000	2018 HK\$'000
Yanchang Petroleum Group	A substantial shareholder	Purchase of refined oil (<i>note</i>)	3,228,122	3,182,000

Note: 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".

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38. PARTICULARS OF SUBSIDIARIES

(a) General information of subsidiaries

Particulars of the principal subsidiaries of the Company as at 31 December 2019 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	
Madagascar Petroleum International Limited	British Virgin Islands ("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	HK\$1	–	100	Investment holding
Shaanxi Hengtai Energy Technology Development Limited^^	PRC	Registered and paid-up capital of RMB30,000,000	–	100	Investment holding
Xian Guotai Basic Energy Development Co., Limited#	PRC	Registered and paid-up capital of RMB25,500,000	–	100	Investment holding
Henan Yanchang*	PRC	Registered and paid-up capital of RMB35,000,000	–	70	Wholesale, retail, storage and transportation of refined oil
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
Yanchang Petroleum International Trading Limited	Hong Kong	HK\$1	–	100	Provision of management services to the holding company
Yanchang International (Canada) Limited	Canada	Common CAD314,100,594	–	100	Investment holding
Yanchang Petroleum International Energy Trading Limited ("Yanchang Energy Trading")	Hong Kong	HK\$10,000	–	51	Fuel oil and oil related product trading
Yanchang Petroleum (Zhejiang FTZ) Limited ("Yanchang Zhejiang")^	PRC	Registered and paid-up capital of RMB40,010,000	–	51	Fuel oil and oil related product trading

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38. 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	
Novus	Canada	Common CAD215,371,475	-	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 entity is established in the PRC in the form of domestic limited liability company.

The entity is established in the PRC in the form of wholly foreign-owned enterprise.

^ These entities are established in the PRC in the form of Taiwan, Hong Kong, Macao and domestic joint venture.

^^ The entity is established in the PRC in the form of solely funded by Taiwan, Hong Kong or Macao corporate body.

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	
		2019	2018	2019	2018	2019	2018
				HK\$'000	HK\$'000	HK\$'000	HK\$'000
Henan Yanchang	PRC	30%	30%	9,418	7,456	91,990	90,961
Henan Yanchang Energy	PRC	30%	30%	(389)	(447)	15,250	15,936
Yanchang Zhejiang	PRC	49%	-	(51)	-	22,040	-
Yanchang Energy Trading	HK	49%	-	-	-	5	-
Total				8,978	7,009	129,285	106,897

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.

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For the year ended 31 December 2019

38. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang

	2019 HK\$'000	2018 HK\$'000
Current assets	632,494	713,530
Non-current assets	168,953	162,177
Current liabilities	(479,495)	(559,213)
Non-current liabilities	(15,319)	(13,291)
Equity attributable to the owners of the Company	214,643	212,242
Non-controlling interests	91,990	90,961
Revenue	7,860,875	5,660,493
Cost of sales	(7,772,602)	(5,602,190)
Expenses	(56,881)	(33,449)
Profit for the year attributable to the owners of the Company	21,974	17,398
Profit for the year attributable to the non-controlling interests	9,418	7,456
Profit for the year	31,392	24,854
Other comprehensive income for the year attributable to the owners of the Company	(3,990)	(11,692)
Other comprehensive income for the year attributable to the non-controlling interests	(1,710)	(5,011)
Other comprehensive income for the year	(5,700)	(16,703)
Total comprehensive income for the year attributable to the owners of the Company	17,984	5,706
Total comprehensive income for the year attributable to the non-controlling interests	7,708	2,445
Total comprehensive income for the year	25,692	8,151
Dividend paid to non-controlling interests	(6,679)	(10,894)
Net cash inflow from operating activities	30,220	13,187
Net cash outflow from investing activities	(22,358)	(18,642)
Net cash inflow from financing activities	55,938	72,505
Net cash inflow	63,800	67,050

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. PARTICULARS OF SUBSIDIARIES (Continued)

Henan Yanchang Energy

	2019 HK\$'000	2018 HK\$'000
Current assets	3,326	3,676
Non-current assets	113,566	115,710
Current liabilities	(66,059)	(66,265)
Equity attributable to the owners of the Company	35,583	37,185
Non-controlling interests	15,250	15,936
Revenue	–	–
Expenses	(1,297)	(1,492)
Loss for the year attributable to the owners of the Company	(908)	(1,045)
Loss for the year attributable to the non-controlling interests	(389)	(447)
Loss for the year	(1,297)	(1,492)
Other comprehensive income for the year attributable to the owners of the Company	(692)	(2,027)
Other comprehensive income for the year attributable to the non-controlling interests	(297)	(870)
Other comprehensive income for the year	(989)	(2,897)
Total comprehensive income for the year attributable to the owners of the Company	(1,600)	(3,072)
Total comprehensive income for the year attributable to the non-controlling interests	(686)	(1,317)
Total comprehensive income for the year	(2,286)	(4,389)
Net cash (outflow)/inflow from operating activities	(9,867)	11,951
Net cash outflow from investing activities	–	(3,403)
Net cash inflow from financing activities	9,995	–
Net cash inflow	128	8,548

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

38. PARTICULARS OF SUBSIDIARIES (Continued)

Yanchang Zhejiang

	2019 HK\$'000
Current assets	55,369
Non-current assets	400
Current liabilities	(11,274)
Non-current liabilities	–
Equity attributable to the owners of the Company	22,455
Non-controlling interest	22,040
	For the period from 28 February 2019 (date of acquisition) to 31 December 2019 HK\$'000
Revenue	107,744
Cost of sales	(105,717)
Expenses	(2,130)
Loss for the year attributable to the owners of the Company	(52)
Loss for the year attributable to the non-controlling interest	(51)
Loss for the year	(103)
Total comprehensive income for the year attributable to the owners of the Company	(52)
Total comprehensive income for the year attributable to the non-controlling interests	(51)
Total comprehensive income for the year	(103)
Net cash outflow from operative activities	(2,196)
Net cash outflow from investing activities	(326)
Net cash inflow from financing activities	17,227
Net cash inflow	14,705

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

39. STATEMENT OF FINANCIAL POSITION AND RESERVES OF THE COMPANY

Statement of financial position of the Company

	2019 HK\$'000	2018 HK\$'000
Assets		
Non-current assets		
Interests in subsidiaries	1,383,085	1,654,334
Property, plant and equipment	3,125	7
Right-of-use assets	6,172	–
	1,392,382	1,654,341
Current assets		
Prepayments and other receivables	1,949	1,520
Cash and bank balances	33,845	158,531
	35,794	160,051
Total assets	1,428,176	1,814,392
Equity		
Capital and reserves attributable to the owners of the Company		
Share capital	242,911	242,911
Reserves	648,252	1,067,977
Total equity	891,163	1,310,888
Liabilities		
Current liabilities		
Amount due to a subsidiary	36,441	–
Other payables	26,284	39,177
Lease liabilities	2,407	–
Convertible bonds	467,755	–
	532,887	39,177
Non-current liabilities		
Lease liabilities	4,126	–
Convertible bonds	–	464,327
Total liabilities	537,013	503,504
Total equity and liabilities	1,428,176	1,814,392
Net current (liabilities)/assets	(497,093)	120,874
Total assets less current liabilities	895,289	1,775,215

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

For the year ended 31 December 2019

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

Movement in the Company's reserves

	Share premium HK\$'000	Contribution surplus HK\$'000	Share options reserve HK\$'000	Convertible bonds reserve HK\$'000	Accumulated losses HK\$'000	Total HK\$'000
1 January 2018	1,763,060	6,454,818	3,702	16,373	(7,031,877)	1,206,076
Recognition of convertible bonds reserve	-	-	-	6,980	-	6,980
Recognition of share-based payment expenses	-	-	1,805	-	-	1,805
Transfer of reserves	-	-	-	(16,373)	16,373	-
Loss and total comprehensive income for the year	-	-	-	-	(146,884)	(146,884)
At 31 December 2018 and 1 January 2019	1,763,060	6,454,818	5,507	6,980	(7,162,388)	1,067,977
Recognition of share-based payment expenses	-	-	327	-	-	327
Lapse of share options	-	-	(5,834)	-	5,834	-
Loss and total comprehensive income for the year	-	-	-	-	(420,052)	(420,052)
At 31 December 2019	1,763,060	6,454,818	-	6,980	(7,576,606)	648,252

40. NON-ADJUSTING EVENTS AFTER THE REPORTING PERIOD

Subsequent to the end of the reporting period, the outbreak of novel coronavirus ("COVID-19") in January 2020 has caused disruptions to many industries, including oil and petroleum industry, in China as well as other countries. These disruptions have inevitably posed a significant threat to the global economy in 2020. Despite the challenges, governments and international organizations have implemented a series of measures to contain the epidemic. The time duration and scope of these disruptions cannot be accurately assessed at this point in time. Given the dynamic nature of these circumstances, the financial impact will be reflected in the Group's subsequent financial statements. The Group will closely monitor the development of the epidemic and assess its impact on its operations.

Since the beginning of March 2020, due to the failure to reach an agreement to reduce production of the Petroleum Production Reduction Alliance, coupled with the unfavorable outlook of the world economy affected by the COVID-19, international crude oil prices have fallen sharply. On 9 March 2020 and 18 March 2020, U.S. West Texas Intermediate crude oil futures prices fell by 24.6% and 24.4%, respectively. The decline in international crude oil prices has adversely affected the Group's sales revenue and profits, the Group actively takes measures to deal with the risks of crude oil price fluctuations, and strives to maintain stable and healthy development of production and operations.

41. APPROVAL FOR CONSOLIDATED FINANCIAL STATEMENTS

The consolidated financial statements were approved and authorised for issue by the board of Directors on 26 March 2020.

SCHEDULE OF INVESTMENT PROPERTIES

The particulars of the investment properties at 31 December 2019 are as follows:

Location	Type	Tenure	Attributable interest to the Group
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 County, Xinzheng City, Zhengzhou, Henan Province, The PRC	Building	Medium-term lease	70%